Bangladesh Beyond 2005

The Era of Textile and Apparel Quota Phase-Out

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ABSTRACT

Title: Bangladesh Beyond 2005: The Era of Textile and Apparel Quota Phase-Out

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Background and Problem Discussion: Removal of quotas on Textile and Apparel trade since 1st January 2005 is a part of the globalization process. Small countries like Bangladesh had their RMG industry grow as a result of this protection provided by the quota regimes. With the growth of the industry and the removal of quotas both the issues impinge on the survival of small countries like Bangladesh in the competitive world.

Purpose: It is to discover how the quota regime was effective and what impact will its removal have on the economy and exports of Bangladesh. The steps have been taken to counter any negative affects of this and the ongoing situation. Bangladesh here is taken as a test case for many such developing countries in the world.

Method: Empiric, qualitative, descriptive, Interview and deductive method.

Theory: The underlying theory of globalization is understood in this thesis in overall. With the better accommodation of world demand with the world supply is met up, which a win-win situation for both the suppliers and consumers would come across. Thus, Bangladesh is taken as an example where restrictive trade environment that protected the RMG industry is exemplified.

Analysis: With the secondary source, have used the limited open source data information from the Internet and the published reports to establish the present scenario of the quota regime. Further on, we explored in the industry for perceptions by experts on the quota regime through the interviews the impact they had and the changes they underwent to brace for the quota free era for survival.

Conclusion: The predicted scenario given by many studies, talks of a million lost jobs and a great loss in market shares for Bangladesh has been refuted and the abolishment has in some areas even improved Bangladesh's situation on the newly opened global market. Though the transition to a fully competitive trade is not over yet; as a result this study should be viewed more of a transitory one. Until now Bangladesh has shown good export growths; 2005 its RMG exports grew by 18.61% and for the first three months of 2006 it held to previous year's growth.

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CHAPTER 1 INTRODUCTION

1.1 Background of the study

The Ready Made Garments (RMG) industry for a period of time has been the main source of growth in Bangladesh's export market and also the foremost employment generating sector. The direct contribution to GDP from this is about 11 percent, when compared it is relatively small, but the industry plays key role in employment and in the income provision to the poor class of Bangladesh, employing directly about 1.8 million people, which is about 40% in the employment in the manufacturing sector, and in this around 90% are women *(USITC, 2004).* The industry supports indirectly about 10–15 million people out of a country of 147 million *(July 2006 est. Source: CIA World Fact Book)*. Over the past 20 years manufacturing unit numbers has grown from 180 units to over 3,600 of which about 95% are owned locally. The typical firm in Bangladesh employs between 200 to 1200 workers and the average in the country is about 550 to 600 workers. In and around Dhaka the capital, around 90% of the factories are located specially places like in Narayangang and Chittagong the port city in South. Raw materiel imported to Bangladesh, which includes cotton, fabrics, accessories etc. are the main source of this industry and in FY02, Bangladesh imported US$1.8 billion of textiles and related inputs. Relatively the country has a small textile industry, but the volume and quality of its output are unable to meet the full demand of the garments industry it gets from overseas.

FDI (Foreign Direct Investment) is concentrated mainly in the EPZs (Export Promotion Zones) or industrial parks. 95% of the country's garment factories are owned by families or local companies according to one of the estimates. Foreign Direct Investment has declined in the recent years and making it for a total of around $12.4 million in apparel and textiles in 2003, which is less than 5% of the total FDI Bangladesh receives. In 1999 the FDI total was only $81.8 million in comparison.

Comparing with the rest of the world Bangladesh's wages are among the lowest, but surprisingly the productivity is also lowest among the rest, limiting any competitive advantage that might be gained from low-cost production. Despite these low wages, overall in the country the employment in this sector has helped to alleviate poverty drastically, as well as empowering women. The average annual growth in per capita income had steadily accelerated from about 1.6 per cent per annum in the first half of the 1980s to 3.6 percent by the latter half of the 1990s and 5.2 percent for the 1990s *(Khundker 2002)*.

Exports from Bangladesh to the European Union (EU) have benefited from GSP arrangements (which permit duty free access) as well as EBA. Thanks to the GSP arrangements, since 1998 Bangladesh has doubled its production of export-quality knit and woven fabrics, reduced its lead times and increased its value added becoming more price competitive. With the United States generous quota allocation scheme opened the door for huge benefits in the industry and overall of country's exports, which are about 98 %, are shipped to the EU and the United States.

Bangladesh as a LDC (Least developed Country) is not unique in the lack of domestic inputs, when considered with the most successful textile and clothing exporters in the world. Where, everyone relied heavily on the imports of raw materials in their early stages of export drive, including the countries like Hong Kong, Taiwan, the Republic of Korea and Japan. Before the Abolition of quota in 2003, textile and clothing made for around 83% of the total exports from Bangladesh for $8.372 billion *(BGMEA, data 2006).* China also imports mass volumes in textiles and raw materials, despite its large local textile industry. The importance in maintaining for an open import regime and improving the trade facilitation points out for the lack of domestic inputs in the backward linkages of the domestic industries in the developing and the LDC countries. Though, necessarily it is not a disadvantage in the industry as long as it can access world prices for its inputs with the given shortest lead times.

To the EPZs, most of the Foreign Direct Investment (FDI) to Bangladesh has gone especially to the RMG sector, which contributes about 10% to12% of the total exports made from Bangladesh. Foreign investors who originated mostly from the Republic of Korea and Hong Kong were the backbone of the Bangladesh's RMG sector initially, who took advantage of the Bangladesh's export quotas for the restricted markets, which comprised Canada, EU, Norway, and the United States as well as the abundance of cheap labor in Bangladesh for the development of this RMG sector. Government intervention with time has reduced significantly the role of FDIs, mainly as a result of government restrictions aiming in preserving the valuable quotas for domestic producers. Thus, this has contributed to the upgrading and slow diversification of exports, contributing to low wages in the employment sector and a greater access in the quota role in maintaining competitiveness. The "cut, make, and trim" segment (CMC), which is the Low end of the market where value added and profit margins are low but highly labor intensive is the lowest in Bangladesh when in compared with other countries.

Bangladesh's main manufacturing industries other than RMGs are fertilizer, cement and food processing, but are far less export oriented than the RMG. The main exports are jute and jute products, frozen seafood, leather and light manufactures. In the late 80's Jute and jute products were the leading exports, though are unlikely to recover in the near future given the secular decline in world demand for it. With the inadequate environmental standards leather industry is currently constrained by the limited supplies of inputs and manufacturing facilities. Frozen seafood, especially prawns which have experienced rapid growth in recent years is constrained by poor quality control and land availability for output. Bicycle and motor production has grown very rapidly recently and shown great potential, although current exports are under $100 million (2% from the total exports of Bangladesh).

CHAPTER 2 METHODOLOGY

2.1 Purpose of the study

The purpose of this Master Thesis is to discover how the quota regime was effective and what impact will its removal have on the economy and exports of Bangladesh. The steps have been taken to counter any negative affects of this and the ongoing situation. Bangladesh here is a test case for many such developing countries in the world.

2.2 Research questions

The imposition of quotas started in January 1, 2005 and the full removal of quotas will not be in place before 2008 at the earliest. The full impact of the quota removal will require further studies. Keeping that in mind, answers to the following research questions will be sought in this paper

- ✓ *What impact did quota have on the growth of textile industry in Bangladesh?*
- ✓ *What are the uncertainties that affect the quota regime?*
- ✓ *What gradual impact has the quota removal, on Bangladesh's and competitor's garments industry?*

2.3. General Methods of the Study

For the secondary source we will use the limited open source data information from the Internet and published reports. The nature of the report as a result will be descriptive in nature as well as explorative. It will explore the sellers' perception of the quota regime.

2.3.1 Literature Review

Firstly, we will review the literature on the topic available on printed form and over the internet. Then we will collate the relevant data and opinions available over the news and the internet for analysis and relevance with the information provided by interviewees.

2.3.2 Primary Data

We will interview leading business people who are in the RMG sector since for a long time and will be able to provide relevant information.

2.4 Primary data collection

Interviews were taken to collect data regarding the perceptions of people working in the industry. The interviews were carried out over phone, Messenger services and over Emails. Other primary data is in from of interview done by other people regarding the same issues.

2.5 Interview methods

Relevant questions for the subject were considered when formulating the interview inquiry. To finally constitute the interview the questions where compiled and edited, several of them are provided with attendant questions dependent on the response of the leading question. In doing so we hoped to receive a great amount of information as possible during the interview. The interviews them selves unstructured as those were conducted over the internet telephony and messenger services.

2.6. Identification of terms

The Garments industry in Bangladesh has been described differently in various literatures, the name includes **RMG-Ready Made Garments**, to **Textile and Apparel Industry** and simply **Garments industry**. Other terms used in the paper includes **Multifibre Arrangement- MFA, World Trade Organization-WTO, General Agreement on Trade and Tariff-GATT, Agreement on Textile and Clothing-ATC, Most Favored Nation-MFN, Doha Development Agenda-DDA, Non Agricultural Market Access-NAMA, Generalized System of Preferences-GSP, Agreement on Rules of Origin-ARO, Council of Trade in Goods-CTG, Textile and Clothing-T&C, Least Developed country-LDC.**

2.7. Limitations

The delimitation of this thesis is for the textile industry in Bangladesh with regard to the ongoing process and the time scale involved with transition. The reason for this delimitation is that Bangladesh is extensively mentioned in the debate as one of the nations believed to be the biggest loser's after the abolishment of the WTO textile quotas on January 1st 2005 but the full impact will be felt later mostly after 2008.

3.1 Globalization and the Free Trade

The right to trade freely with the other countries gives the meaning for this free trade, like to buy and sell in the same way nationally, as well as internationally. Free trade can be defined in another way as of abolished trade barriers, barriers such as quotas and tariffs. Quotas indicate that countries can only sell a certain amount of specific products, and tariffs imply that certain fees are placed upon a product when crossing a border to another country.

Globalization might be defined as an intrinsically related series of economic phenomena. These include the liberalization and deregulation of markets, privatization of assets, retreat of state functions (particularly welfare ones), diffusion of technology, cross-national distribution of manufacturing production (foreign direct investment), and the integration of capital markets. In its narrowest formulation, the term refers to the world-wide spread of sales, production and manufacturing processes, all of which reconstitute the international division of labor. (*Winfried Ruigrok and Rob van Tulder, 1995)*

The International Monetary Fund defines globalization as “the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology”. Meanwhile, The International Forum on Globalization defines it as “the present worldwide drive toward a globalize economic system dominated by supranational corporate trade and banking institutions that are not accountable to democratic processes or national governments” *(IMF working paper).*

3.1.1 Existing arguments for the free trade

Free trade generally is with two types of arguments; social profits as a consequence from trade and direct economic profits from trade. Thus, these contributes sharpening the competition, increasing choices for consumers; placing pressure on prices, increasing choices and promoting improvement on products and service qualities. Also increases prosperity as a result of persons, companies or regions ability to focus their production to what they are relatively better on. Thus, trade products with another, company or a region that can produce that specific product better. These chains with all the resources, capital, domains and knowledge are used more effectively than if only producing for own consumption. Free trade also results in spreading technologies and businesses globally beyond any boundaries.

Promoting peace is an indirect advantage, as it is well supported considering that countries in close trade relations will hesitate for war with one another. It contributes spreading knowledge on norms of democracy and political situations in different nations. When trade places on equal basis corruption could decrease too. Economic theories of comparative advantage points out that free trade leads to a more efficient allocation of resources, with all the countries involved in benefiting by the trade leading to lower prices, higher output into ultimately the more employment.

3.1.2 Existing arguments against the free trade

The protectionists and those who consider free trade unfair fall under this category. Trade barriers protect the local market as per the protectionists and also they want to guard the distinctive cultural characters of local markets minimizing international brands. As per them this free trade threatens the employment in a country, comparing with the developed countries with low wages in developing countries. The second group, who believe trade is not fare, consider that the rich countries and big companies are in a superior position in relation to undeveloped countries as of exploiting the poor nations in environment, undermining democracy.

According to "The Challenge of Slums," a 2003 UN-Habitat report, "the cyclical nature of capitalism, increased demand for skilled versus unskilled labor, and the negative effects of globalization in particular, global economic booms and busts that ratchet up inequality and distribute new wealth unevenly, which contributes to the enormous growth of slums." The critics typically raise the possibilities of policies and alternative global institutions, as far as they believe which address the environmental concerns in an equitable way, moral claims of poor and working classes throughout the globe. Considering the term global migration issue, where disputes revolve around its causes, whether far ends could be voluntary or involuntary, necessary or unnecessary; social and environmental cost or whether beneficial or not. Migration as a process where white and blue collar workers may go from one country to another to provide their services as of proponents view, whereas critics view it in negative aspects as it links between migration and the growth of urban slums in developing countries with leading in to economic and political instability and environmental insecurity.

3.2 Overview on the History of world trade

The trade has always been a defining factor since history and the world trade rapidly developed during the 19th century latter stages as a result of improved communication and transportation. Within the same period an acceptable currency was found to circulate among traders in the chain. Great Britain and France had signed an agreement for general trade liberalization between the two countries during the 1860s. Thereafter, dismantling different trade agreements and custom barriers came into effect among other nations having understandings between themselves. Some developing nations were not included in trade agreements in the early part

20th century, where the agreement took place only between Germany, France and Great Britain and it circulated as a small multilateral trade system with having all the participants the same terms practically. And also there was a clause to guarantee the principle called “most favored nation (MFN)”, it meant considering France had the equal rights same as the trading partners in Great Britain as most favored.

The peace in Versailles in 1919 after the First World War, one of the major tasks was to prioritize the collapsed open payment and trade systems prior to it, which fell apart. Though, the increasing inflation in many countries during the war period had made tensions obstructing the liberalization of the trade among the countries. Thus, the tariffs were average higher than before the war and were often had to be changed to correct the imbalances. The crash in 1929 October in the New York stock exchange (29th Depression as called), declined the economic development as a consequence of the poor collaborations. Governments of different nations attempting to protect their own economies made worse the situation and as a result the relevant tariffs increased. Thus, the imports declined substantially with the exports with affecting all the countries. During the 1933 peak of depression, world trade declined two thirds approximately as a result.

At the end of all these crisis stages, attempts were made to decrease the tariff levels that increased within the years. The American way of decreasing tariffs differed from the British way greatly and it was on strict mutual agreements, though the Americans were leading the way. An international conference was held in Bretton Woods In 1944, USA to clear up the stagnated negotiations on the economic cooperation proposals and for the institution for collaboration, which was developed by the US and the Great Britain at that time. The World Bank (IBRD) as well as the International Monetary Fund (IMF) was the town institutions developed as a result of this convention on respect of signing bilateral agreements. To give long-term loans for the countries which were affected during the war for their reconstruction was the first mission for IBRD and then on the poor nations, giving social and economic development assistance was the other. The IMF’s mission was to create a stable payment system internationally, which will be able to assist the developing and developed economic exchanges in the world. This international trade system was the foundation for the post war era and it became a temporary agreement between twenty countries approximately. Series of some of the tariff negotiations in Geneva, Switzerland during 1946 and 1947 was the origin to the above agreement and the negotiations did include 45 000 engagements approximately on the tariff reductions, and finally it was called the General Agreement on Tariffs and Trade (GATT). 1st January 1948 was the date, which GATT agreement began and it was thought to be of a temporary transition solution for all the crisis came up within the nations, instead it became the foundation stone for the post war trading system.

3.3 The General Agreement on Tariffs and Trade (GATT) and the World Trade organization (WTO)

GATT is the foundation for the global free trade and is the origin to the multilateral regulations in the trade area. The nations who have signed GATT are forced to follow the regulations as per the agreements of the multilateral regulations. Areas such as anti dumping, estimations for tariffs, import licenses, technical trade barriers and regulation are under negotiation within GATT for mutual agreements.

With 23 countries participating in 1948, which went until 1994 and then an agreement developed to expanding the nations involving a majority of countries in the world within GATT. Overall purpose of GATT is to contribute the economic growth, increasing welfare by facilitating trade. Accordingly to the MFN principle (most favored nation), where all trade benefits that are given to one country should include all the other members automatically. This MFN and the principle of national treatment are the foundations of GATT. The national treatment states that domestic and imported products should be treated equally when it comes to taxation and other regulations. To limit import or export with quantitative restrictions and the quotas are prohibitions of GATT. That is under normal circumstances tariffs are the only allowed instrument to limit trade.

Tariff relationship is an one central element in GATT, which means that the countries have to bind tariffs, where it will be stable and creating a predictable base for trade and at a certain point which are not allowed to exceed that limit. Where the agreement was in force for around 50 years, especially in the developed countries the tariff levels significantly decreased. Therefore all these facts have caused a need for regulations in GATT.

To protect the local industry against market disrupting competition, number of clauses have been included in the GATT rules that referrers to under certain circumstances. These clauses are often used by developed countries to protect themselves from developing countries on low price competition. Thus, the rules allow temporary measures of protection targeting to give the local industry some space from increased international competition to adjust in a situation. Rising problem for the world trade especially for the developing countries, is the import market situation.

Uruguay Round, which was GATT's eighth and the last negotiation, was done in 1994 and this negotiation finally gave the opening towards the establishment of the World Trade Organization (WTO) in 1995, 1st of January, which is located in Geneva with 147 member nations. And in November 2001 China became a member. WTO's mission is to administer the agreements and been a forum for the negotiations. Founding regulation of GATT included the tariffs for industry products and other traditional barriers for trade. At present the agreement includes other types of trade barriers too. WTO main agreements constitute for the trade of goods, which is the former GATT and the General Agreement on Trade in Services (GATS). The agreement on specific immaterial problems such as patent falls under the trade related aspects of intellectual property rights (TRIPS) and finally WTO also has specific rules concerning how to solve the trade disputes.

3.3.1 The Multifibre Arrangement (MFA) from 1974 to 1994

The textile and clothing quotas were bilaterally negotiated and governed by the Multifibre Arrangement (MFA) rules, from 1974 till the end of the Uruguay Round in 1994. When increased import of particular products threatened to cause or caused or damaged seriously to the industry of the importing country, some MFA nations were given selective quantitative restrictions. These MFA agreements did conflict with GATT's general preference on customs tariffs, finally by imposing measures to restricting those quantities. Since restrictions on imports were placed only on specific countries which were threatening, therefore MFA included some exceptions to the principles of GATT treating equally all the trading partners. All these facts brought to replace the MFA on January 1st 1995, by the WTO Agreement on Textiles and Clothing (ATC) which gave way the path for a transitional process, ultimately for removal of the quotas.

3.3.2 The Agreement on Textile and Clothing (ATC) from 1995 to 2004

The Agreement on Textile and Clothing was built on several elements and was a transitional instrument. The product coverage including fabrics ad yarns was the first which made the clothing. Thus was associated by a new program for the integration of these products into rules of GATT 1994. The acceleration of the annual quota growth rate liberalized the process which enlarged the then existing quotas, until they were taken out. Textiles Monitoring Body (TMB) was established to ensure that the rules were followed during the implementation of ATC.

The Uruguay Round's related requirements for the decisions in concern of textiles and clothing required each member to abide by its rules. To achieve the improved access to the market, to avoid discrimination against textiles and clothing imports, to ensure the fair and equitable trading conditions applied. Therefore, the member nations were obligated to do what was necessary. To adjust the quota growth of an export country which is not complying with the obligations, the authority was given to the Dispute Settlement Body and the Council for Trade in Goods. Thus, finally to supervise the implementation of the so called ATC the Textiles Monitoring Body was established.

With all these facts on January 1st 2005, the agreements on textile and clothing were fully integrated into the normal GATT rules. Where the quota allocations were abolished and the importing countries no longer are to discriminate between exporters, moreover no longer ATC exists.

3.3.3 The integration of textile and clothing products into the GATT rules

The textile and clothing products will gradually integrate into the GATT rules over a ten-year period. This will take place in four steps, thus to allow time for adjustment for the both exporters and importers. The textile and clothing products which were previously under quotas, which were placed before December 31st 1994, were carried into the new agreement. And these will be integrated into GATT after the abolishment. Accomplishment of the integration will be by an annual reduction of the quotas in each of the four steps. The annual reductions are set out in a formula, based on existing figures under the old Multifibre Arrangement (MFA).

Table 1

<table>
<tr><td colspan="3">Four steps over 10 years. The schedule for freeing textiles and garments products from import quotas (and returning them to GATT rules), and how fast remaining quotas should expand. The example is based on the commonly used 6% annual expansion rate of the old Multifibre Arrangement. In practice, the rates used under the MFA varied from product to product.</td></tr>
<tr><th>Step</th><th>Percentage of products to be brought under GATT (including removal of any quotas)</th><th>Percentage of products to be brought under GATT (including removal of any quotas)</th></tr>
<tr><td>Step 1: 1 Jan 1995 (to 31 Dec 1997)</td><td>16% (minimum, taking 1990 imports as base)</td><td>6.96% per year</td></tr>
<tr><td>Step 2: 1 Jan 1998 (to 31 Dec 2001)</td><td>17%</td><td>8.7% per year</td></tr>
<tr><td>Step 3: 1 Jan 2002 (to 31 Dec 2004)</td><td>18%</td><td>11.05% per year</td></tr>
<tr><td>Step 4: 1 Jan 2005 >Full integration into GATT (and final elimination of quotas). >Agreement on Textiles and Clothing terminates.</td><td>49%</td><td>No quotas left</td></tr>
<tr><td colspan="3">The actual formula for import growth under quotas is: by 0.1 x pre-1995 growth rate in the first step; 0.25 x Step 1 growth rate in the second step; and 0.27 x Step 2 growth rate in the third step.</td></tr>
</table>

Source; Abolishment of textile quotas, 2005

If there are situations that can damage an importing nations industry during this transition period, then ATC allows as per the agreement where additional restrictions are to be imposed temporarily under strict conditions. These transitional safeguards are not the ones normally allowed under GATT and can be applied on imports from specific exporting nations. A nation when vulnerable has to show two facts as of the damage which is a sharp and substantial increase from the specific exporting nation and the increased imports of the product in question. Therefore restrictions for safeguard can be implemented either by unilaterally or with mutual agreements.

3.4. Quota implementation

The quota categories on certain RMG were implemented by the developed countries for the protection measures after they face the pressure from the developing countries. India and China the biggest populations' in the world were assigned the lowest quotas as of with the huge resources would threaten the industries in the developed. LDC's and low-income developing countries were given relatively large number of quotas that often were not able to fulfill as of their nature. The Quotas have decided the structures of countries, especially in Asia with large impact on the economic and social development in many LDC's and low income developing countries, but has been a social economic lost to the world as a whole too.

From the first two steps in 1995 and 1998 the EU and the US integrated products which did not have quota allocations while importing. And they stopped setting quotas on products which were not in the quota allocation system, which ultimately did not give the so called trade liberalization. Moreover, the importing countries conducted themselves the implementation of the MFA and ATC. Anyhow, neither EU, CANADA nor the US followed the actual intentions of neither the implementation nor the products with quotas, but all the products included in the ATC.

The multinational companies most likely are the ultimate winners of the abolishment of these textile quotas. Considering the fact that these companies can move freely their productions to any location where the profits are more and no restrictions by the quota allocation. This could affect between nations and regions, which will ultimately lead to consequences on companies, employees and economies affecting as a whole.

When comparing with the rest of the developing and the lest developing nations Bangladesh is a giant in the RMG exporting sector, competing with one another trying to become a winner, even though in lack of raw material in home soil and with a low productivity in respect for the huge demand the nation gets. The success behind all of this is the generous allocation of non-quota system for exports and a good positive tariff system by the European Union.

CHAPTER 4 Uncertainties of the quotas

After 2008 the precise picture of global textile and clothing trade is something that could be uncertain, though there are some indicators to guess or judge the potential winners and losers of the quota phase-out. Understanding the quota removal impact in a country like Bangladesh with the present uncertainties and the threat of the industry is a must for the future. There are many important indicators which are highlighted below,

4.1 Uncertainty No 1: The ATC and post ATC issues affecting the trade flows

For the developing countries including Bangladesh, who were under the quota allocation system will be benefited, as well as the other exporting nations with the allocations. A market shift will affect considerably many developing countries in their exports and their economies, where the national incomes depend to a large extent on garment exports. But the countries that are yet under the system will have the pressure to fight in the competition for the survival on a global level. Overall there are many factors that should be understood, which are following in brief;

a) Use of the quotas: Countries which were unable to fill their quota requirements are unlikely to benefit from this new market opening, whereas the countries which were using fully preceding 2005, will have a chance to increase the exports after the phase out period. Canada, the United States and the European Union (EU) continued to impose quotas, 1,338 between them, till the end of 2004 and performance monitoring of these quota are therefore was essential. Developing countries like Bangladesh could increase their output pipelines in time taking this valuable chance, with no restrictions.

b) Exploiting the liberalized product categories: There will be a fundamental change trading in this sector as a result. The liberalization of product categories, after the third stage of the ATC in January 2002 shows the development possibilities. At the same period integration of seven product categories into WTO by the United States, caused the abolishment of quotas and it caused a tremendous change in the trade flows. Taking this opening China, with all the liberalized quota allocations increased its exports greatly in to the US market, several hundred percent increase in some product categories was the increase. Only China did when comparing with other countries and mainly to the detriment of Caribbean and Central American countries creating a situation in them. Though some small producers lost the market share with out any competition, while others increased exports only in some categories.

c) Critical export mass: Intense competition will be there on the developing countries that are not under quota constraints and they will have not experienced the same before to face the competition. It will become more difficult even to remain or to enter in world markets for the developing countries that do not have meaningful export quantities currently and thus, the critical mass will become an important issue. International buyers who source in huge quantities will unlikely to source where only a few companies serve the world market and will affect this situation in the less producing countries. Major textile and clothing buyers more over, will reduce tremendously by half or even more the sourcing countries. Since 1996 in US, EU, Japan and many other markets the textile and clothing import prices have fallen continuously. This trade trend is likely to continue bringing about potential deterioration in the developing countries, where in a liberalized, oversupplied market the quota rents will disappear with no warnings. In these markets the retailers will expect that 10-20 % of price fall depending on the product and the market.

4.2 Uncertainty No 2: The Erosion of preferential market access for the developing countries

a) Negotiations of WTO under the Doha Development Agenda (DDA) The DDA mentions that particular emphases should be given to reduce high tariff, tariff escalations and tariff peaks. Preferences will be eroded for those countries depending on the subsequent tariff cuts and the formula applied, thus they will receive duty free market access presently or at reduced rate to the market access (such as regional trade agreements, under special free or as GSP). Therefore, Non Agricultural Market Access (NAMA) outcome will have implications and T&C will not be negotiated immediately under the DDA negotiations. The NAMA has special interest to put a sectorial approach in seven sectors, where negotiations also include a provision to the developing countries. These seven sectors are not yet been defined, but T&C could be a possible sector. Finally, the elimination of tariffs and non-tariff barriers (NTBs) for the environmental goods and services also refers towards the DDA. Within T&C, silk products and organic cotton might qualify for the so called additional benefits. But the question and problem is that all these goods are not yet been defined and also are open to wide interpretation. The Director-General was instructed to consult and work on the issue of this cotton with relevant international organizations, even including the International Trade Centre on the development aspects of cotton. Therefore, the WTO members did agree to make discussions on cotton as an integral part of the negotiations in agriculture rather than treating the issue separately.

b) The Free Trade Agreements for unilateral, bilateral and regional groups: The main RMG importing countries have granted concessions specifically providing selected countries with some competitive advantages in response to the ATC. Therefore, it affected the textile and clothing in regionalization of the trade and also to a complex patchwork of agreements in the international trade. For small and medium-sized enterprises (SMEs) from the developing countries, it puts in a difficult position for exporting the RMG to determine their competitiveness with the major competitors. More concessions can be granted than before as the quotas are phased out and making the trade a more complex phenomenon. There are more than 170 regional trade agreements within the WTO and its secretariat has estimated the number could increase with substantially up to more than 300 by the end of 2006.

The “failure” at Cancun, including the US and to a lesser extent the EU and many others did switch establishing bilateral and regional trade agreements. Free trade agreements for the USA is a means of increasing economic integration through the access to the improved US market, which is an important achievement in the foreign policy, political and security issue. As these agreements especially have become more important in recent years as advisers from development and trade policy have been pushing for a new path from development aid to new “development through trade” programs. The work at the multilateral level was transformed to the bilateral level which the prior did not workout, leading to an up-rise in the preferential bilateral and regional trade agreements.

The US has preferential agreements or can say as unilateral with a range of Sub-Saharan African countries under the Africa Growth and Opportunity Act, Caribbean Basin Trade Partnership Act (CBTPA, formerly CBI), North American Free Trade Agreement (NAFTA), the Andean Trade Promotion and Drug Eradication Act (ATPDEA) and also has bilateral free trade agreements with Chile, Jordan, Australia, Singapore, Israel and Morocco. Other countries such as Sri Lanka, the Philippines Thailand and almost all Asian LDCs are keen on seeking free trade agreements with the United States as well. The EU also has a number of preferential trade agreements, which provides for specific goods from the country or countries of origin and concern to be imported and entered into the EU to a free circulation at zero or reduced customs duties, which subjects to a strict rules of origin requirements. Under the EU’s scheme of preference, the use of materials from EU is permitted, but is under certain conditions and is commonly known as either bilateral or diagonal cumulation or the donor country content. The main condition is that raw materials for textile production must satisfy the rule of origin. Bellow is given origin rules for the fabrics. (*US Textile Importers Eye at World Trade Forum, 2005).*

Above mentioned cumulation does permit the use of material from one member of a regional group for production in another member of the same regional group. The main groups are; ACP and OCT countries, Pan-European cumulation area; Maghreb countries; GSP – South Asian Agreement on Regional Cooperation (SAARC), GSP – Association of South East Asian Nations (ASEAN); GSP – Andean group of countries and also GSP – Central American Common Market (CACM).

C) The Change in the Generalized System of Preferences (GSP), It is the programme designed to promote the economic growth in the developing nations with providing preferential access to duty free entry for products more than 4,650 from 133 designated territories and countries. This was initiated on January 1st 1976 and under the authorization of Trade Act of 1974 for a 10 year period. Since then it has renewed periodically, even in 2006. GSP programs have been a mixed success from the perspective as a group for developing countries. Most rich countries on the other hand have complied with the obligation to generalize their programs generally including nearly every non-OECD member state by offering benefits to a large swath of beneficiaries.

The GSP has helped benefiting substantially some developing countries, the “Richer developing countries” like Brazil, India, Hong Kong, Taiwan, Singapore and Malaysia, whereas most countries in Sub Saharan Africa, Nepal and Haiti in the LDCs are virtually with no assistance at all still on the same path. The EU provides duty free reductions up to 20% for countries which are eligible, though the US GSP does not provide such reductions for T&C imports. Anyhow, the EU also uses a product, country originating system and also the EU is presently revising its current GSP system, whereby to introduce a new system from 2006 to benefit every nations overall.

d) Requirements for the Rules of origin: Is the criteria required to determine the national source of textiles and apparel product or commonly known as country of origin for the application of quotas. This method employs the transformation criterion substantially, which is based specially on a tariff shift method. The importance of this is that duties and restrictions in several cases of textile and apparels depends upon the importing source as goods are not produced in one country, but mainly from a combination of multiple countries.

The textile and apparel industry is one group that this origin has significant impact as the products undergo processes like in a chain wise. A RMG or finished apparel may be the end product of a process that began from the raw fiber and continued with yarn spin, fabric weaving, dyeing and the finishing, piecing, sewing, adding accessories, labeling and packaging as the end final product. Therefore, these products in any of these states may be shipped from one to another country for the process.

With respect of this rules of origin there is a wide variation within governments how they handle it. Universally recognizes the requirement of substantial transformation, though some governments apply a certain criteria of change of this tariff classification, others have the ad valorem percentage criteria and yet some has got the criteria of manufacturing or processing operation. In this globalize world it is important more that a degree of harmonization is achieved in implementing such a requirement by the members.

The Non-preferential rules of origin are under subject of negotiation with the Agreement on Rules of Origin (ARO). There is no progress made during the last nine years in the negotiations, though for many developing countries it is a matter of concern. It was a major highlight in a dispute settlement between the United States and India. While the WTO settled the case in favor of the US, from the WTO’s 20 member developing countries viewed that the classification change of cotton goods highlighted the incidence and scope of restrictions on the products under the ATC to the disadvantage of the WTO exporting Members.

The preferential rules of origin on textile and apparels were established by the European Union and the United States to increase its economic and political gain over certain regions.
These schemes are most set in the General Notes of the HTSUS and employ the criterion "wholly obtained" for goods that are the wholly growth, manufactured or produced from a

particular nation. Whereas, goods that consists in parts or in wholly of material from more than one country employed in this too. Textiles were often included in agreements like these domestic textiles often persuaded the lawmakers to limit giving the benefits to protect European or American producers. It is important that the rules of origin are strict enough to prevent transshipment via a beneficiary country by a third-country, like cases to prevent anti dumping by China. Canadian preferential scheme for LDCs is a highly flexible rule of origin foreseen for the third party sourcing provision act under AGOA is a good example, which is an important element to assist the LDCs to maintain their clothing exports.

4.3 Uncertainty No 3: The use of trade remedies under the WTO agreement

a) Antidumping measures: When a country exports a product at a rate lower than the rate it normally charges on its own market at home, that is said to be "dumping" the product. This poses a threat to the developing country which successfully exporters products and there is a risk of a pressure suddenly downwards on export prices on the removal of quotas. When quota prices disappear many countries in the developing world fears that major importing countries could use this as a tool to invoke the anti-dumping cases. Therefore, 15 developing countries submitted a proposal to the WTO for a moratorium to Council of Trade in Goods (CTG) to use the instrument called anti-dumping trade remedy for 2 years after the quota removal. However, this proposal could not find a consensus with the CTG. The news of antidumping possibilities in investigation would make importers hesitant to place their future orders as of uncertainty, whether in future they would be penalties or duties and the effect is known as 'trade chilling'. These antidumping measures would reduce sharply the benefits from liberalization, as of they are unpredictable and non transparent.

For the developing countries where it depends on the status of the home industries will be a consequence in the long run. Such trade remedies are to be targeted likely on the developing countries with good industrial setup with having integrated industries in T&C as India, China, Indonesia, etc., and if trade remedies are been used some protection could benefit the smaller developing countries.

The extent of dumping calculation is not enough on a product. Measures only can be applied if the dumping hurts the industry in the country of import. Accordingly to specific rules detailed investigation has to be conducted first and it must evaluate all the economic factors related that industry in question on the state of it. And if it shows it takes place and hurting the domestic industry, the company exporting can undertake raising its price to a negotiated level in order to avoid an anti-dumping import duty to be taken place. However these investigations are very expensive for the industries that seek protection, association of importers in the major countries importing have indicated already the view that investigations would likely cover a group of countries in order widen the benefits and to cut the costs.

b) The China-specific safeguard use; Accession agreement of China into WTO includes a

China-specific safeguard unique mechanism, which allows a WTO Member to restrain increase of imports from China, which could disrupt that member country's local market, since China's membership started in December 2001 with WTO. And this special safeguard applies to China only and not any other WTO member state.

Importing countries in principal can possibly utilize only two safeguard mechanisms against China which was stipulated under the WTO accession agreement. These are: **a)** T&C specific safeguards until 2008 December and **b)** Product specific safeguards which utilization can be applied for all kinds of products valid until 2013 December 10, including the T&C.

a.)T&C specific safeguards; so far have only been involved by the US for 3 kinds of category products, category 222 (knitted fabrics), category 350/650 (cotton and man-made fiber) is on bathrobes & dressing gowns, and finally category 349/649 (cotton and man made fiber) on brassieres.

The Transitional China Specific Mechanism is a special mechanism which, includes textiles and apparels products and will be available for 12 years from China's date of accession. And also China can bilaterally agree to withheld its exports (there is no permission for this action under the Agreement on Safeguards with WTO), or else a member from WTO unilaterally can act on limiting the imports to a necessary extent addressing or preventing the disruption of its market.

On this special safeguard mechanism under special circumstances, in response to it China can retaliate to the use as of following,

- Similarly China may impose restrictions on the WTO Member, if a safeguard mechanism has been in effect based on a relative increase in imports for more than two years.
- Similarly China may impose restrictions on the measure applied by the WTO Member, if a safeguard mechanism increases in imports absolutely which has been more than three years in effect.

Where circumstances are critical and if there would be a delay, causes damage, repair would be difficult, then immediately provisional relief can be taken based on market disruption or threat which was preliminary determined. Actions of such kind may precede on bilateral consultations and up to 200 days it can last. *(Department of Commerce, International Trade Administration, 2001).*

b.)The product specific safeguard; so far have only once been used for the exports from China. Peru introduced this on a critical issue which was needed on some measures immediately. Consultation with China, Peru did remove this safeguard and then reverted to 19 of GATT (general safeguard rules). Therefore, not only China on Peru too additional import duties are due from any WTO member nation since then.

C) Safeguards under GATT 1994: In US the so called “US Section 201” under the WTO rules, safeguards against imports including textiles and clothing. If proven that the increasing imports are a cause of serious injury substantially to the domestic industry, it can be used with effect and can take in the form of tariffs or import quotas up to 8 years permitting that the domestic industry to become more competitive and only in increasing imports this can only be used, which until 2005 will probably not be used. Possibility is that during the transitional period when quotas are phased out could ease the impact on domestic producers using these traditional safeguards.

If foreign government subsidized exporters try to harm or tries to do any sort of threats to the local industry, the Anti-subsidy actions can be used imposing duties on accused imports. As the US trade law does not allow anti-subsidy actions against non-market economies, this instrument is not in use in the US at present.

4.4 Uncertainty No 4: The introduction of new rules or new buyer requirements

Government / Customs level: At this point of Custom entry under preferential trade agreements, procedures are taken to prevent the unlawful transshipments. Under this agreement (AGOA), to ensure that apparel from a third country has no transshipment; it is the role of US Customs and Border Protection (CBP). Therefore, CBP cooperates closely with the custom in the beneficiary country in order to ensure this and also verifies to monitor the declared production has actually taken place.

Thus, the US Custom has a Advanced 24 hour Manifest Rule, which requires 24 hours before the containers are loaded on vessels to provide a description in detail in the containers bound for the US by sea carriers and NVOCC’s. Thus they could analyze the content, information and identify if there is any terrorist threat before it is sailed in an alien seaport. From February 2nd 2003, sea carriers/ NVOCCs having found clear violations of this 24 hr rule, then the seaports will issue a "do not load message”. If without prior approval by Customs, the cargo is loaded at all US ports the container will be denied entry. For the developing countries that have difficulties to comply with new security measures, the US Customs Trade Partnership against Terrorism can have negative effects on it. Therefore, the CBP monitors the record keeping of factories. However, it does require production records which are understandable and are sufficient to be provided to establish the country of origin. If not a denial of AGOA is a likely consequence treatment as a matter of fact.

To strengthen the overall supply chain and US border security, the US Customs has introduce the term “C-TPAT” (Customs Trade Partnership Against Terrorism), which is a joint Government business initiative to build the cooperative relationships.
And it defines that the business should ensure integrity of their security in practice and thus, Customs can only provide security at highest level through cooperation closely in the supply chain from manufacturers, carriers, importers, warehouse operators and to brokers etc. And this C-TPAT requires certain amount of data transferred electronically from the manufacturers.

Preferential treatments on the manufacturers that comply with these requirements, upon arrival in the US ports are likely to receive.

b) Codes of Conduct, This mainly conducts and concerns of the wide spread “child labor” in the developing markets and the so called “sweat shops”. Thus, to source textiles and apparels from a non-child labor or sweat shop market, the US Customs and CBP under preferential market agreement under AGOA, tries and ensures where the shipments are taking place from and under what conditions. Specially where NGO’s, western Media and Labor Union’s are creating such awareness with a huge cry among the major textile and apparel importing developed countries, directly putting the pressure on Buyers especially with these codes of conducts. Multinational Buying companies are strictly adhering to these rules at present, as they are afraid of loosing customers on negative publicity. For manufactures this requires having specific “Compliance standards” in each and every factory having independent Monitors to evaluate, having an extra cost on the productions and with new productions the requirements are increasing further too.

c) Requirements for Eco-Labeling; To develop and market an environment friendly product range, since the beginning of 1999-2000 was the textile panel’s main activity and this did include textile products from a wide variety in the industry. To get more on Eco friendly product ranges on the textile market and to make them more visualize to the consumers and purchasers giving the awareness situation was a fact to be considered. The developing country textile and garment manufacturers are increasingly confronted with the need to adapt to the requirements. This scheme currently serves as a marketing tool primarily, and niche markets are targeted for these products with eco-labels. Much more transparency is needed to ensure this requirement does not make a new barrier to the market access. However, accesses to the developed markets are more concerned to avoid aggressive advertising and consumer boycotts of non-labeled goods.

In Europe this Eco labeling requirements are more widespread than in the US. The EU Commission mentioned on its importance of the labels that the Commission would increase its public awareness campaigns within the consumers and the only imposed requirement was that the clothing imported had to carry the EU Flower. Only one EU flower label had been granted for textiles in Denmark at the beginning of 2000, at present there are 11 licenses granted, and nationwide 16 retail textile chains sells carrying the EU-Flower label. Numerous textile companies are making efforts in addition to get this EU Flower on their products. Thus, on enterprises the pressure increases for those who are not following any eco-labeling.

d) Environmental Standards: Majorities who are strong in the developing countries around the world supports that the other countries should sign trade agreements to meet the environmental standards and minimum labor. The less developed nation leaders generally have opposed working conditions and the environmental protections in trade deals including the minimum language mandating standards. They say like major markets in EU and US such rules are more towards the protectionist and would undermine their ability to compete in the industry. But the environmental standards will likely be enforced more even including the introduction of new kinds of standards, which on developing countries could have a negative effect on the market access possibilities and their economies in transition.

The TBT/SPS a non-tariff barrier is a new system the EU is considering to introduce and implement for a possible trade-restrictive and is called REACH (Registration, Evaluation and Authorization of Chemicals. It would subject to a procedure of registration, authorization, evaluation and restriction for a large number of chemical substances that make the textiles and clothing companies that want to sell their products in the EU, if this is implemented.

A industry has achieved ”Human scale’s Monofilament Stripe textile” in Switzerland on the ”independent bluesign® environmental standard: It was developed by bluesign technologies to ensuring that textiles and their production processes creates no health hazards, environmentally friendly and conserve resources to the greatest possible extent. The so called bluesign standard was created to the increasing demand in response for environmentally sustainable textile products. And this is designed with the most commercially significant and stringent legislations to comply worldwide.

CHAPTER 5 Bangladesh Textile Industry & the Markets

Over the past two decades the RMG exports have grown rapidly in Bangladesh, following early 1990's huge trade and other economic reforms. The export values that can be valued in US dollars have increased more than six times during the period of 1990 to 2002. This is considered as the fastest growth of the country's merchandise exports, comparing with other exports. In particular, the knitwear sector has performed greatly over this span of time and the share of from it has grown to 40% in 2003 where it was only 17% in the year 1995. Several advantages have been enjoyed by the knit ware sector of Bangladesh for its woven sector.

- ✓ Inexpensive, highly flexible technology, conferring advantages to the role of low wage, unskilled labor which is available already in Bangladesh
- ✓ Raw materials can be sourced mostly locally or itself from the region, thus rules of origin requirements makes it less difficult to meet in the major export markets.
- ✓ Availability of local inputs keeps the Lead times much shorter.
- ✓ The manufacturing units are comparatively small and face fewer trade union activities.

From the year 1998 the performance has decreased in the RMG exports with the annual growth it had in 2002 at less than 5% in consideration. In US dollar terms, the export value has actually declined for first time; during the 20 year span until 2001/02. It was noted that increase in the competition, particularly from India and China during this period resulted in this situation, while there was a slow growth of global demand during the same period as per the exporters of Bangladesh when interviewed. US preferential trade agreements were also to be blamed for the export decline policies they chose, especially the exporters believed that the act of US Africa Growth and Opportunity Act have distracted the US textiles imports away from Bangladesh to Africa.

In the first half of the year 2003 the RMG exporters recovered as there was a shift in demand for the favor of the Bangladesh due to mainly of the SARS epidemic, which hit the region of China and South East Asia during the early part of 2003. The access of duty and non-duty to the market of Canada started in January 2003 which strengthened the global demand. Increased exports to the EU also helped for the recovery of Bangladesh, where as everything but Arms (EBA) initiatives also benefited Bangladesh's export of RMG.

A large number of Bangladesh's major competitors, faced the restrictions like tariff and quota in all of the constrained markets apart the United States. The free access of quota was constrained to Bangladesh, which gave the country a distinctive advantage than its competitors and additionally to that the duty free access strengthened the position of Bangladesh further. Though, the tariffs on textile and clothing remain yet higher. Bangladesh will remain in the tariff preference scheme even after the 2005 quota phase out from all the exporting countries.

Though, the rules of origin have often been constrained the advantages of the quota and duty free access. EBA for instance, where Bangladesh's knit garments that got a huge domestic value, has added up to 80%. This can normally meet the 51% of domestic and regional value added on requirement for the eligibility of preferential access of its woven garments. The Bangladeshi woven garment industry relies greatly on the imported inputs, which faces a notable restriction in completing these requirements.

Since half of the Bangladesh's RMG exports for EU are of woven, this restriction has been very important in measuring the country's whole performance in the field of export to the EU market. Though, only half of the exports to EU from Bangladesh have actually received the treatment under duty free by this plan. For its RMG exports, Bangladesh depends on the USA and EU markets heavily. And by combining the two export markets could get an account for 94% of Bangladesh's total RMG exports. In contrast the main competitors of Bangladesh mostly are having a large ratio of their T&C exports to the unconstrained markets, as Bangladesh got negligible exports to the unrestricted markets. China for example, over three quarters of its export goes towards these so called markets and where as the India's share is around 40% towards it. Generally the markets which are unrestricted in nature have been more significant to the well-established exporters, where the quotas are placed in the US and EU. In the list of 25 top clothing exporting countries, the second on list is Bangladesh, which relies on the constrained markets after the Macao SAR. Comparison list of above clearly gives that Bangladesh has the capacity to enter into the unconstrained markets. This also shows that Bangladesh can be a bit in advantage by the price increase in the regions of unrestricted markets when the demand increases at the restricted markets *(IMF Working paper 04/108)*.

5.1 Bangladesh's export market in brief

5.1.1 The US Market

The RMG exports of Bangladesh are more emphasized in the quota restricted products in comparison with its competitors in the US market. 30 categories of products were there in this restricted category. However this is pretty low in compare with 90 categories faced by China. In the terms of value, Bangladesh is covering more quota than most of its competitors. This shows either more inclusive constraints on exports of Bangladesh or more liberal access to the quotas and it is positive for the former and negative for the latter case. In either of cases, the impact on Bangladesh tends to be higher than on the other countries when quotas are removed. Without the knowledge in restrictive of the quotas Bangladeshi exporters facing versus those facing, it is rather difficult to assess the Bangladeshi competitiveness based on the quota coverage. The utilization of high quota rate of Bangladesh indicates that it is facing the binding position of quotas; however this does not indicate that it is facing the more constraint quotas than its competing countries. A useful indication of the constraints of a quota is the value it commands towards the market. In practice, the higher the price, the more restrictive is the quota.

Table2: United States: Textile and Clothing Quotas, 2001–02
Source: United States Department of Commerce.

			Import Under Quotas		Total Imports		Percent	
	Number of Quota Categories	Average Quota Fill Rate	2001	2002	2001	2002	2001	2002
Bangladesh	30	83	1,453	1,396	2,235	2,017	65	69
Cambodia	23	24	548	639	953	1,062	57	60
China	90	76	4,669	5,315	9,629	11,476	48	46
Egypt	19	10	154	141	515	493	30	29
Hong Kong	64	55	3,848	3,809	4,461	4,081	86	93
India	30	68	1,497	1,714	2,912	3,294	51	52
Indonesia	34	33	1,109	1,045	2,586	2,363	43	44
Pakistan	36	31	1,066	1,047	1,958	2,01	54	52
Philippines	42	32	1,437	1,46	2,274	2,06	63	71
Sri Lanka	38	26	1,132	1,065	1,725	1,552	66	69
Thailand	59	56	1,468	1,47	2,534	2,299	58	64
Turkey	28	23	850	990	1,472	1,702	58	58

(In millions of U.S. dollars, and percent)

The data of quota price from above shows that the quota for Bangladesh probably falls in the center of the restricted scale. The quota price data in the year of 2002/03, which was reported by the World Bank after China, Bangladesh seems to be the second restricted exporter to the US market *(USITC, 2004)*. Though the data given by the industry sources in Bangladesh figures that the quota price has fallen since the year 2002. And the year 2002 estimation done by the World Bank shows 20% of the FOB price (free on board), which is net of the quota price, is considerably low comparing with China, which is about 36% but similar to India, which is about 20% and higher than Pakistan considerably around 10%. However, the average quota price of Bangladesh has fallen to around 7.6% in the span of late 2003 to early 2004. It is significant that in spite of such estimate, it is essentially unstable given the characteristics of quota restrictions. The restricted measures of quota are calculated by its various prices in the change with demand and supply condition over the time period *(IMF Working paper 04/108)*.

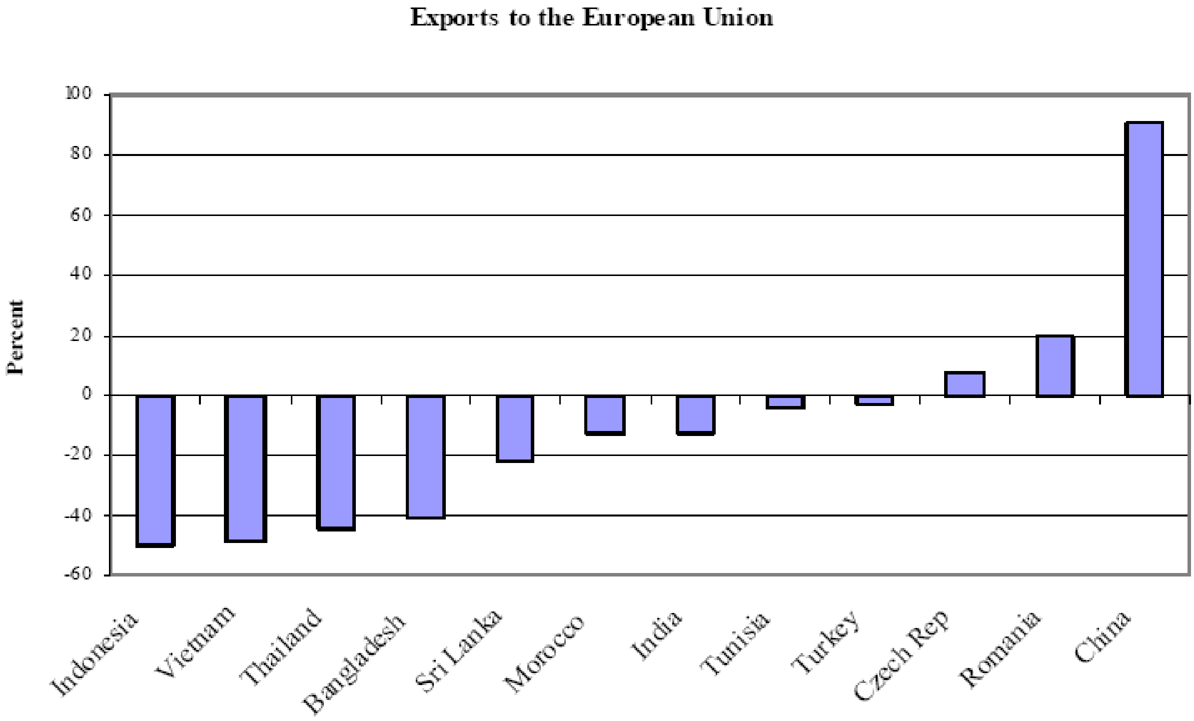
For every Chinese product on restriction done by the quota allocations, its counterpart Bangladesh too is restricted in the same manner. Comparing with the competitors in the industry at the product level indicates that the Bangladesh exporters are expected to face powerful rival competition in US markets once the left over quotas are abolished. The Finger-Kreinin similarity index figures that Bangladesh's and China's exports to the US overlaps by around 72 %. Bangladesh's top export nine out of ten coincides with the top ten of China. Though, the rate of quota utilization are alike for both the countries, the price of quota are much greater in China than in Bangladesh. The average quota price of China, by using the trade weights of china, as a FOB percentage price is around 40% towards the products restricted from Bangladesh as well. Whereas, the Chinese quota price in average has risen to 49%; which is around six folds greater to the average price of Bangladesh. Same goes for the utilization of the quota's and the average rate of utilization for Chinese products, of which Bangladeshi products are also constrained, is 16% points, which is greater than its total average of 72%. The similarity of Bangladesh's exports with the countries like Pakistan and India is lower than China but still it is very much important. The dissimilarities with India and Pakistan is that they have greater expertise in textile products, where as Bangladesh is only specialized in the field of garments *(USITC, 2004)*.

In comparison, Bangladesh has got a low price on quota, which results partly from the liberal quota allocation it gets from the US market. Quota growth rate for Bangladeshi exporters have been greater than all its major competitors. At the end of 2002 Bangladesh was permitted to a growth rate annually in average of 12.9% as its base quotas and higher than 60% compared to the average of its competitors. It is noted that Bangladesh is enjoying a larger quota for a number products than of China. By measuring in the terms of Chinese unit value or CIF in short, on average it is double in number than the unit values in Bangladesh. The combined quota of Bangladesh is around 20% more than of China's for the restricted products. If Bangladesh gets the product quality, efficiency, the product capacity as of China, then the quota for Bangladesh will be worth more than US$ 3.2 billion in the US. The rate of current average quota utilization could double its preset export value to the US market, lacking of any quota volumes increased *(USITC, 2004)*.

5.1.2 The EU Market

Bangladesh does not have any quotas for the EU market, which means that its exports could be ever greater when the quotas on the other countries are abolished too. Dissimilar to the US market, Bangladesh's quota rent is 7.6% to the cushion prices, which will decrease further with the left over quotas, are abolished. Any declination of price in the market of EU would straightly cut into income and thus apply force on the exports.

Figure1: *T&C Exports to European Union*

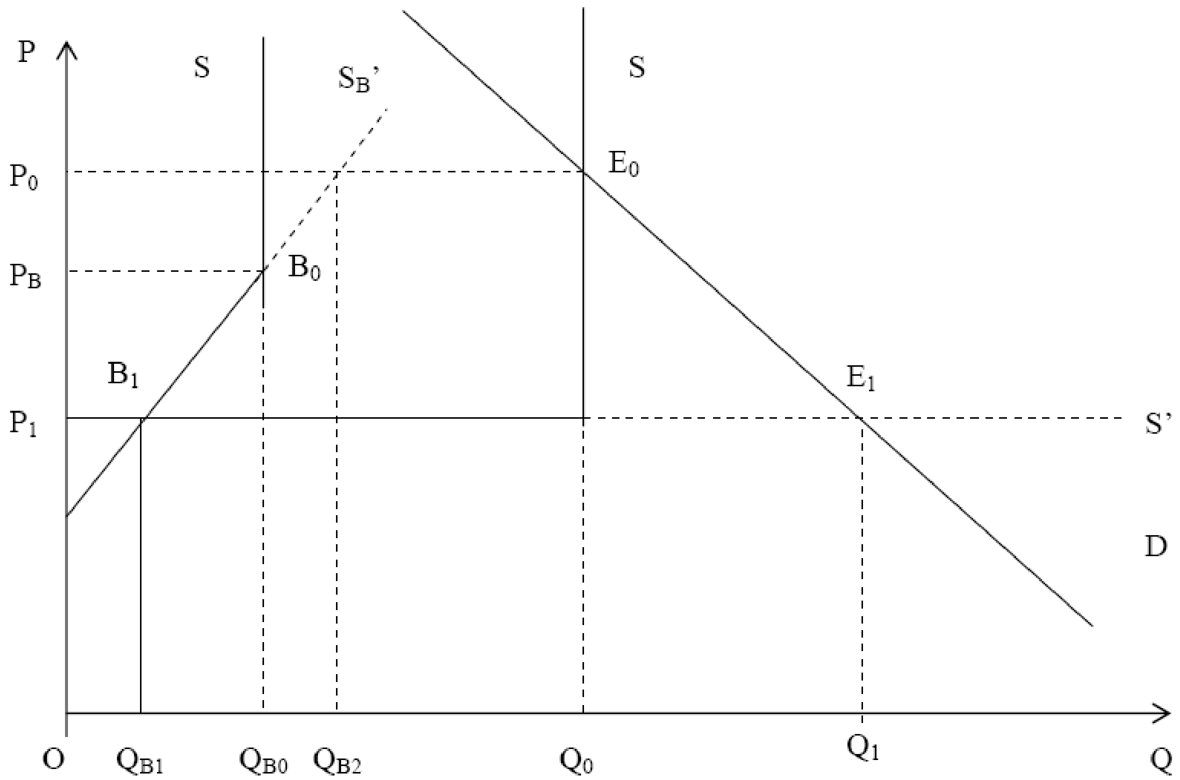


The distinctions between the two markets are shown in the figure 2. For the current level of quota restrictions in global terms (Q0), the US import price shown by P0, hugely determined by the Bangladesh's competitor's production cost, in particular China and the degree of quota restriction on its exports. The degree of quota constraints is calculated by the quota rent or by the equivalent export tax (ETE), shown in the figure as P0P1. In the figure it can be confusing that the 40% of quota rent is for Chinese exports. The cost in production of Bangladesh is at the margin of PB, which is higher than the competitor that is pointed at P1. But the country is fully capable to exploit its given quota of QB0 at the point of P0. As a matter of fact the exports of it would likely to increase to the point of QB2 despite the restriction of quota. Infact this is preferential, that EBA access of that the Bangladesh will have in the market of EU. Although, if the quota on the level of all exporting countries are abolished, Bangladesh's export point would be bonded from the point QB0 to the QB1 for the US market. Where as, the US market has expanded it to the point Q1 for the global exporters. On the other hand Bangladesh's exporters would contract from the point QB2 to QB1 in the EU market. In fact, when the price falls in the market of EU, which will lead to a decrease for Bangladesh's export. The export supply of Bangladesh to US is completely inelastic in unit that price falls below point PB *(IMF Working paper 04/108)*.

Approximates of ETEs suggests that the export price by the Bangladesh's competitors could indeed drop significantly once the quotas are eliminated from the EU market. Clearly the clothing exporters in China apparently face the higher average ETEs in the EU in comparison to

United States. Where as Indian and Pakistani exporters are also facing the similar stages of ETEs in both the markets. For the Bangladeshi exporters the price elasticity of demand is also the same for both in the EU as well as in the US market. In a hypothetical way in the figure 2 the descending force on the Bangladeshi exporters in the EU market would be greater than the market at US, when the quotas are eliminated for Bangladeshi competitors *(IMF Working paper 04/108).*

Figure 2. Bangladesh in the World Textile Market
(Source: International Monetary Fund: Working Paper WP/04/108)



The level of replacement between exports from Bangladesh and its major competitors are greater in the EU market. At the first sight, this does not get a visibility to be the matter on the basis of estimated export similarities in the EU market. At the level of quota which, lies over between Bangladesh exports and China is pretty low to be considered. But with India and Pakistan it is very much in high. The similarities of exports between the countries like Bangladesh and China are low, as the exports of China to the EU are diversified, whereas Bangladesh's' expertise falls only in quite a few main clothing categories.

Although only 86% is accountable from just five categories for Bangladesh's overall RMG exports for the EU in the year of 2002, whereas it only makes 13% for the Chinese export. In the terms of values, China exported only half of what Bangladesh exported. It should be noted that estimates done by the World Bank in 2004 in these categories, China's export has very high volume. Considering Pakistan, it has the position, which has been higher than average ETEs for these categories, moreover to a greater share of these products it is in the whole exports to the EU, which donates considerably to the greater exports between both the countries. Hence, it is obvious without any little export similarity between the countries of China and Bangladesh, rivalry between these two countries are probably has to be strong.

5.2 The market change and the removal of quotas

A respectable number of quotas were removed at the part of "Phase III" quota integration for the year 2002 to 2004, under the ATC at the beginning of the year 2002. After 2004, these allocated quota categories initially in export performances provided the evidence of competitiveness. While the exporters from china rushed from 2001 to 2003, export products of Bangladesh, which had fall under the Phase III integration decreased by 46% in terms of the value for the EU market, and 41% for the market in US. Amid the seven product categories for which in 2002 quotas were eliminated in the US market, Bangladesh faced losses in exports in all but one product category. Export declined in other countries as well, but the loss of Bangladesh in the EU market might appear surprising given that it has access to both quotas free and duty free under the policy of EBA.

5.3 Constraints in domestic supplies

Bangladesh's main competitive additional advantage over its competitors is the unique low wages, which is other than from the access to generous quota to the main export markets. The labor cost as per unit is around 20-30% in Bangladesh and it is 30-40% less than the major competitors like India and China respectively. However, the labor productivity which was calculated by the value added per worker is also very small in comparison. This small amount of productivity is cause of a several supply restrictions that needs to surmount if Bangladesh wants to improve its competitiveness in the long run.

5.3.1 Structural Rigidities

Structural inflexibilities have made it harder for Bangladesh to fully utilize its labor cost benefits. A recent study done by World Bank named "Bangladesh Enterprise Institute and World Bank 2003", showed the following are recognized as the key structural restrictions for investment in Bangladesh.

- ✓ Insufficient infrastructure poses one of the severe obstacles companies face in Bangladesh.

- ✓ Pervasive corruption often manifests in excessive regulation itself, which leads to bribery and extortion.

- ✓ Nonperforming high level loans reduces the capacity from the banks on reasonable lending interest rates.

Fragile infrastructure hinders activities across all the industries and frequently forces an important constraint on the export industries. Where, clothing and textiles in which the prices hold the competitive advantages and the steady quality and trustworthy delivery are one of the major criteria for success in this export oriented sector. Despite that considerable FDI received for the power sector in Bangladesh, electricity supply has been impeding over the past decades. Around 70% companies which are dependent on the back up generators which supplies the electricity at a certain cost normally 50% more than the value of power than from the public grid. Costly and often inaccessible are characteristics of telecommunication networks of Bangladesh especially for overseas connections.

Bangladesh has remarkably low penetration of telephone lines and higher effective international rates than its main competitors around. However the road network has been reasonably developed in Bangladesh. But there has been significant clogging on the roads. The port of Chittagong, which has been the main gateway of Bangladesh, is very sluggish in treating the containers due to the deprivation of cranes. One of the developments and a running of a privately owned container terminal at Chittagong port have become slow due to the recent labor disputes among workers. Gradually more airfreight has been resorted by the exporters just to ignore losing the orders, thus more squeezing their revenue margins. This is the period in which the success of export greatly depends on the faster response and quick turnaround for the orders, where as the low grade infrastructure of Bangladesh has placed it exporters to a distinctive disadvantages in comparison with its competitors.

The cost of infrastructure is becoming an important determinant of FDI and inflows increasingly and sources of imports for the post ATC market of textile and clothing. Predictability on policies and good infrastructure in transport are the most crucial factors that influence the FDI in the sector of RMG. More interestingly, if lower wages are not coordinated with the rational productivity is not a very crucial factor for determination. *Spinanger and Verma,*, which was conducted in the year 2003 indicated that while the availability of quotas are getting less important for investment decisions the infrastructure is getting more crucial for the transportation, as the final level of integration of quota is drawing closer. The awareness of extensive fraud more declines the apparel importers to Bangladesh as the FDI and import source destination. Out of 133 countries, Bangladesh ranked last in the Transparency International Corruption Perception Index for the year 2003.Moreover the extensive and variable bureaucratic wheels with greater caution in their execution, Licensing necessities and complex customs process in particular are constraints as major hindering elements to the FDI's for trade. Lastly fragile law and order system and extensive extortion impede the foreign investments and investors to Bangladesh with fear.

5.3.2 Policy Induced Constraints

There are some policy induced negative impacts that have reduced Bangladesh's competitiveness in clothing & textile sector, in addition to the ones mentioned in above paragraphs. Thus, these are- **1**. Limitations restricting on FDI in this sector; ***2***. Prerequisite on having the back to back letters of credit (LCs) before the accepted imports; **3.** Reservation requirement on minimum 40% for domestic vessels on export cargo; and **4.** A quota allocation system that is inefficient within the country, EPZ has the best allocations.

FDI in RMG is very limited to defend the local producers. For this sector all the new FDI has to be verified by the Board of Investment (BOI) in Bangladesh in discussion with the manufacturer association's in RMG. This is feared as of the competition in quota allocations with the foreign owned companies investing. However the last does not have any power to the veto, practically BOI has followed the associations' recommendations.

Generally the manufacturers advocate only the acceptance of FDI in sub sector where Bangladesh is supposed not to be aggressive. Bangladesh has give up quite a number of FDI related advantages in constraining the role of FDI in the wider textile and garment industries. While the greater technology and managerial skills are often brought in by the foreign investors. With the help of FDI, local firms are able to join the global value chains. Hence, the value chains are frequently the important source of product information and channels for export sales.

Global value chains superior integration has allowed the competitors of Bangladesh to move rapidly to merchandise of higher quality, under the brand names usually, where the revenue margins are far better. As mentioned earlier the average unit price of Bangladesh in the main category product lists are considerably inferior comparing with the equivalent products in China.

Obviously the constraint from FDI slightly explains the low export price of Bangladesh. Other issues include the insufficient labor training, equipment outdated, fragile infrastructure, and the comparatively large quotas which give the exporters of Bangladesh lesser incentives for the up-gradation of products. The present global value chains are identified by the consolidating the origin of supply and augmented involvement of sellers in product sourcing, control for quality and fixing the standards of labor and environment. This has caused the function of the buying offices in Bangladesh on the line of decrease. Consolidation happens in Bangladesh among the larger producers, who are developing industries in the same locations with more facilities and equipments. Quite a few numbers of operators wants to reallocate the industrial area of Bangladesh to a place away form the cities. Thus, in such areas they can get lower wages. The operators who will be unable to strengthen their operations will probably suffer in future with these facts. To consider, when the larger operators hardly buy out the struggling small factories in Bangladesh and so there will not be a future for small scale producers.

The prerequisites of b/back LCs (Letter of Credit) considerably boosted the lead times for exporters. Among a few exceptions were, that the raw material importers in the RMG can only be accepted if they open back-to-back LCs on time on their imports and then only the exports will be granted. The logic behind this law is to stop the non exporters from getting benefited access to the duty free market where inputs are available only for the genuine exporters. Basically this rule has benefited the domestic textile producers, who produces garments to a great extent for a lengthen delivery time for the imports to be effective. The 1982 Flag Protection Ordinance expressed that to set apart 40% of the required exporters on domestic cargo vessels. Since it is hard to practice as of splitting individual shipments to 40%-60%, thus law has not been very widely used. Exporters have to fulfill the prerequisite by seeking the waivers form the director General of shipping. Where as the laws are controversial, it induces costs considerably on exports through lost time and latent corruption.

Based on performance from past, the quota allocation system is inefficient and does not encourage any kind of competition at the same time as it is backward to adopt such measurements. Large and established firms are favored by these system vis-à-vis new and innovative firms. A clearer quota allocation system, which can be based on competitive auctions, would have been the most effective for exporters with great access the to quota market, where as same time the reduction of problems in governance and accommodating some profits for government would take place equally. Looking ahead with these in mind, the quota elimination should therefore generate more stages for a playing field.

5.3.3 Privileges Enjoyed by the RMG Sector

Different types of schemes and arrangements have been made to mitigate the impact of the supply restriction on the export sector in Bangladesh. Especially the RMG enjoys a noticeable number of policy preferences which includes;

***Duty draw-back scheme*;** Import duties are paid on raw materials, and are returned to the importer upon the execution of the export order. This duty drawback scheme is a form through which the RMG sector gets the benefit on these materials. Though poor arrangement implementation has resulted in delays in the repayment and allowed payments on the kickbacks to the tax official who handles it.

Bonded warehouse; The raw materials, which are used by the garments manufacturers may be imported by without to have pay any duty and could be kept them as a bond.

Reduced income-tax rates; During FY05 budget, the government reduced the rate of corporate income tax for industries in RMG from 30% to 10% till the date June 30, 2006. The rate for income tax for textile manufacturers also was reduced to 20% from 30% and 35%, at the same period. Though, the impact of the reduced income tax is insignificant on the producers, as there’s already a present low income tax bill.

Cash incentives*;* A cash compensation scheme (CCS) operated by the government, in which domestic suppliers, the export oriented RMG units gets a cash equal to 10% of the value, which is added to the garments in export. Cash payments in the past three years have averaged to about USD 100 million, in which this cash incentive scheme is costlier to government and in addition to that the effects on the garment companies are very limited. The subsidies in the industry are captured by only a few RMG exporting companies.

The total effect of these planning, cash subsidies in particular, is way too difficult to establish. The CCS policy's sound in principle but rather very hard to be implemented in reality, leading to the profit outflows and rent seeking actions in export productions. The CCS is also a burden to administer for some. The requisite paperwork seems to be so high that most of the manufacturers, small ones in particular, choose to give up the benefit.

6.1 Effects on the Quota Removal

Bangladesh heavily relies on the textile and apparel exports and thus, potentially a vulnerable country to the quota abolition, as per the predictions by many experts and the studies done so far. These studies have been done to assess the quota removal impact on Bangladesh's economy, especially on the exports (Table 3). Though, it is a time consuming and difficult process to get reliable conclusions from any of these studies done so far as some studies are based on past experience, some are not that quantified and others are conjunctive based. Anyhow, most of the outcome of these studies concludes that quota impact could be a negative effect on the Bangladeshi government and its textile industry and its associated subsidiaries. Including Bangladesh, Fiji, Sri Lanka and several other nations had appealed to the WTO for an extension for the deadline, which the trade body inclined finally. A high probability exists for a loss in market share after the year 2004 as per Spinanger and Wogart (2001) and as per Cooksons estimate a loss due to competition (2003a) of about 50% from the U.S. market and about 35% from the EU market. Thus, an overall loss of 35% of RMG exports from Bangladesh.

Table 3: *A summary findings about the effects of MFA Quota Removal by January 2005*

Study	Estimated impact	Methodology	Notes
Cookson (2003a)	35 percent decline in export values; 50/20 percent of U.S./EU market lost	Interviews with main exporters and author's conjecture	No rigorous analysis
Gherzi Textil and others (2002)	Presuming a negative impact but no estimates are available	No quantification of the impact	Focuses on policy recommendations to the authorities
Spinanger and Verma (2003)	GDP: -0.14 percent Overall exports: -0.1 percent Textile exports: 15.5 percent Clothing exports: -7.9 percent	Simulations of combined effects of quota elimination and China's WTO accession using the GTAP model	Numbers bench-marked to a 1997 baseline
Spinanger and Wogart (2000)	Bangladesh's share of Swedish market declined from 0.16 percent to 0.03 within one year after the 1990 elimination of quotas	Ex post estimation. No isolation of the effect of quota removal	Suggestive results for effects of quota removal in 2005

Source: IMF working paper 04/108

Under the third phase of ATC integration of quota with the observed effects, the above results are broadly consistent of the quota removal on Bangladeshi exports. Productivity changes in Bangladesh and the global market growth size at present, could give a linear extrapolation from the performance in the integration of Phase III, suggesting that the calculated loss in RMG export values of Bangladesh could be around for 25%, when the rest of the quotas in 2005 are eliminated. Textile imports by the same percentage would decline but nothing else changes assuming and thus, then the trade balance decline could amount for about US$750 million, or about 1.5% of the 2002 GDP. This has an important limitation as through the sectoral linkages such an approach cannot account for the quota phase out effects nor can the economy wide effects it takes into account through the changes in investment, income and savings *(IMF working paper 04/108).*

The exporting country has got a critical effect on the data on the quota premiums, as the relative restrictiveness of quotas they indicate across the exporting countries. Existing studies mostly relies on this estimates as when the weakening competitiveness by competitors indicates. To estimate the impact, an economy wide approach on quota removal is required, given the systemic importance to the Bangladeshi economy in this textile and clothing industry. Though, on the key inputs relevant information in these models are limited. Therefore, the GTAP (Global general equilibrium model) framework is used in this paper and from that to examine the global trade implications in Bangladeshi economy to estimate the impact of the phase out of quotas (Appendix A includes a brief description of this model). A comparative static assessment changes in the post MFA global trade patterns the GTAP analysis provides, using a multi regional general equilibrium and also it takes into account the induced implicit tax by MFA on cotton and allows for substitution in the inter fiber. The medium term and static effects of quota removal is focused and the model's database is updated through an exercise projection till 2007 for this reason.

Therefore, it involves population, augmenting the GDP and the factors (labor, land, capital and natural resources) with productivity endowments accounting for any slack in GDP growth. The employment and GDP projections are based from IMF *World Economic Outlook (September 2003),* and the population projections are based from the *World Bank World Development Indicators (2002).* The historical data are taken from *Hertel and others (1996)* and the projections for the Capital accumulation are taken from GDP growth projections. For the natural resources, price constants are assumed over time and the resource level used is determined endogenously and finally for changes in arable land are based from *Anderson and others (1996).*

The allocated export quota from all the developing countries, except the Vietnam are abolished including the Bangladeshi RMG exports in the simulation of impacts, which only had the restrictions in the US market but there were no policy changes in agreements that took place, except the quotas. In the baseline projections, the removal of EU and Canadian quotas on Bangladeshi RMG exports are incorporated too. Any of the dynamic or non-price effects from the quota phase out, the simulation does not take into account as of transport facilities and product quality improvements. Any of the exporting countries experience an export contraction or expansion after the removal of quota; it depends primarily on its cost (net of quota premiums) of production, whether lower or higher than its rival competitors. Overall these results are reported as deviations from the 2007 baseline. From a number of scenarios are examined, which are based on different assumptions like on the factor markets and elasticity of substitution. In most of the simulations it is assumed that in the developing country exports the nominal wage standards remain constant, while the changes in demand responds to the employment. Assuming the labor and capital are perfectly mobile across the industries nationally, though internationally completely immobile. The expected rate of return determines the domestic investment and is equalized (by the net of risk premium) in search for higher returns across the countries through the international movement of savings. This saving is a linear functional fact of the national income and the Land is confined for the use of agriculture, while only with the mining activities used from the natural resource is associated *(IMF Working paper 04/108).*

Simulation results confirm the consensus that Bangladesh is likely to be adversely affected by the phase out of textile and clothing quotas. Under the first scenario, in which standard GTAP elasticity are applied and nominal wages are assumed to be fixed, clothing exports fall substantially, while the textile exports contract only moderately. However, because of the great weight of clothing in total exports, overall exports fall considerably. The extent of the impact on clothing export is not surprising given their heavy concentration in the restricted markets. Overall imports also fall, largely as a result of declines in textile imports. On balance, the trade account deteriorates by 1.2% of GDP. Despite the relatively weak backward linkage of the garments industry with the domestic textile industry and the rest of the economy, the effects of quota removal on the GDP and employment are large—and perhaps larger than the current share of textile and clothing in GDP would suggest. GDP contracts by 2.3%, while employment declines by 4.5%. The simulation results are very sensitive to the elasticity of substitution between products from different countries of origin. When it is greater the substitutability between Bangladeshi and its competitors' products, the larger is the impact on Bangladesh's exports when the quotas are removed. Lower elasticity (half the values of the central elasticity) would significantly reduce the impact on Bangladesh, while higher elasticity (double the values of the central elasticity) would imply a dramatic impact on Bangladesh. The central elasticity represent the best judgment on available estimates in the literature, but the true values of these elasticity's could be anywhere between the lower and higher bounds. It is important to note that within this wide range of elasticity's, the direction of the impact remains unchanged *(IMF Working paper 04/108)*.

To determine the impact of quota phase out on macroeconomic aggregates the factors on market assumptions are a critical tool. Influence for a decline in the GDP deflator and the consumer price index leads to the market contractions in textile and clothing exports, which leads to real wages increase in assuming of constant and nominal wages. The quota removal impact is smaller considerably, when assumed the real wages are to be fixed (through indexation to the CPI). If the wages are perfectly flexible the impact is even smaller so that there will be no employment contraction. How is the investment affected by quota removal, is another assumption important to consider. If there is a possibility for Bangladesh to affect by the quota removal adversely as per the investors belief, then there could be a demand for investment in Bangladesh for a higher expected rate of return and then, it should be assumed that it could perceive a risk in Bangladesh on investors in the risk premium of 1% point. Therefore, it could reduce the impact on the trade balance by reducing further the investment, but there is a possibility that it would exacerbate GDP and employment contractions.

The U.S. and EU on China to re-impose the quota on exports after the 2004, is assumed that then the Chinese textile and clothing exports would increase only by half as of renegotiated arrangements. Therefore, the result figures out that the adverse impact on Bangladesh's employment, exports and GDP would be less than about 30% under that scenario. The adverse effects of the quota abolition would offset if the productivity increases in Bangladesh.
Therefore, Bangladesh needs a total input productivity increase to maintain the GDP baseline level as per the simulation indications by 4-5% cumulatively in 2007 relative to its rival competitors. And the RMG sector needs an achievement increase by 5-6% in productivity to ensure employment to be in baseline. These could potentially deteriorate the trade balance substantially when compared. Based on these analyses, without the accelerated structural reforms, significant pressure on the balance of payments Bangladesh is likely to face, with the employment and output in the quota removal after phase.

6.2 Quota Elimination Impacts

Quota elimination has removed one of those advantages from the countries which it affected on benefiting from preferential agreements on trade. Generally tariffs are less costly to the exporting countries than on the quota restrictions. And the countries that lack preferential tariff free access to the US markets are the most exposed ones for vulnerability*.*

The existence of quota in the past, country-wise served to distort the global T&C trade and thus, the elimination is expected to result in stronger sales at companies and countries with the better competitive capabilities in the long run. Many research reports have pointed out that undoubtedly the consumers are the biggest beneficiary group from the quota abolition and they would gain from lower stemming prices from intensified competition and as well as from quota premiums from this situation. Although these quotas have been phased out as per the scheduled, in overseas markets the undercurrent prevails as per the protectionist, with regard to US T&C industries particularly. And it is estimated that from the quota removal and import tariffs as well as consumers would save US$13 billion in prices (OECD). And this has enabled RMG importers and retailers to source only from the locations those offering the best services and products, leading to a situation where the sourcing locations reducing. For instance, a typical importer may could reduce the number of locations for sourcing from over 30 to even 10 after the abolition of quotas and thus, that situation would help importers to lower the costs in the administration creating uncertainties, given that on previous allocations some 40% of the effort and time was spent on to a large number of sources. Manufacturers and large retailers such as the J. C. Penney, Gapp, Liz Claiborne and Wal-Mart that sourced from around 50 or more countries once, only sources from 30 to 40 now as per the industrial sources. It is predicted that without quotas the numbers will fall far below around to 10 or 15. Therefore, the competition among the RMG producing countries should increase, which would contribute for more pressure to reduce the costs in production, leading finally to lower the wages. This means an increased risk for weaker labor standards at the end *(Maquila Solidarity Network 2002–2003).*

Importers and retailers are pushing their suppliers for the premium services in design, production management, delivery and the entire supply chain management enhances competitiveness and to offer the best prices in the market. And also the US and EU importers and retailers do request that their overseas suppliers to adhere to the ethical sourcing practices as well as the US governments security measures required. At the same time, pressure is on the suppliers where to locate their textile and apparel productions, including for the costs in labor, productivity, quality, commitment on time and the presence of synergistic forces in the industrial locations etc., are some of the numerous factors other than the quotas which shapes the decisions by the international buyers. There will be new comers to the industry making a huge competition from different locations and thus, will make a immense effort to explore the US and EU markets actively and not like as the previous, where companies and countries having specific quotas in hand to enter the industry. An industrial country's ability to engage in the full production process, to go beyond rather than the simple assembly / supply, but to give the client a completed product in chain from the stages of designing, sourcing, cutting, sewing, assembling, labeling, packaging and shipping from one place as per their satisfaction. Even some other important factors that depend the Buyers sourcing would be on the political and stability of a nation, the telecommunications infrastructure, the quality of transportation infrastructure, policies affecting trade and development in the locality and policies affecting the labor sector (such as working environment and the health). Significantly only the quota issue did not make the top decisions in this above 2003 survey. *(Spinanger and Verma 2003; Andriamananjara, Dean and Spinanger 2004)*

All though, the disadvantage that falls on the developing countries have predicted to an aggregate global benefit of trade liberalization from the econometric simulation sorts vary enormously, from a $6 billion low to a $324 billion high, depending on the assumptions that a range from two thirds of all the gains to a mere 5% contribution of ATC reform has been estimated *(EU 2003a; Walkenhorst 2003).* Clearly, this is not an exact science.

The Norway’s experience in the EU may provide a foretaste for the quota elimination as the country did eliminate on January 1, 2001 its last quotas, four years ahead of the USA, Canada, and the EU. Since then, Bangladesh and China have increased their shares in export of RMG to the Norwegian market. Therefore, local producers and the EU have lost their shares heavily. But Turkey and Romania have gained the biggest shares by their low cost regional exports to Norway.

The most vulnerable are LDCs and small exporters, who are expected to heightened competition level of the post ATC and several of LDCs are particularly among the high export dependence on the textiles and clothing. Thus, these exporting countries face increasingly intense competition in a quota free environment in which, more than three quarters of their exports were in highly sensitive allocated quota categories. Many of these countries has got the limited capability for an adjustment for the impacts lately and therefore, feared of loosing this advantage at the end of the phase out.

The Global Trade Analysis Project (GTAP) model done by Spinanger and Verma (2003), used to estimate the impact on the individual countries and the larger impacts of China's trade liberalization into the WTO's full accession. Thus, their model in quota elimination for China estimates that it would result in a 6% increase in textile exports and an 88% increase in clothing exports. In the full trade liberalization period, their gains are even higher with 39% for textiles and 168% for apparels. In the apparel exports section, China, India, Hong Kong, Viet Nam and the US are the only economies to benefit from it. And in the textile exports, most nations would benefit except the US, Mexico, Canada, the EU, Africa and the Middle East under their simulations *(Spinanger and Verma 2003).*

This GTAP model was also used by Nordås (2004) to estimate the impact and her simulations views that post ATC era, in trade of textiles and apparels by China and India will gain further market shares and also stresses that such simulations on "the recent developments in the organization in the sector" will fail to take into account. The increased vertical specialization "implies, that the inputs embodied in the final product which cross the borders several times and thus, such trade is very sensitive to the tariff level" *(Nordås, 2004, p. 34).* Moreover, the important point of increasing lean retailing makes the time to market especially in the industry of fashion clothing. Therefore," from India and China, the anticipated competition is far less affected than the previous thoughts to the countries close to the major markets than in previous studies and possibly maintaining their market shares. Therefore, the Caribbean, Mexico, the East Europe and North Africa are likely to remain important exporters to the US and EU" *(Nordås, 2004*, *p. 34).*

It is important to caution study results against using from the GTAP model (See Appendix, A), as the GTAP model has been noted to suffer from an incomplete reflection of the actual trade protection patterns. And also have assumed that the released resources from one sector may flow to another, in a short or medium term without any significant disruptions *(Mayer 2004).* As the econometric modeling is not an exact science, and between different studies the estimated impacts vary considerably. And also some other recent evaluating modeling studies are valuable for the likely outcome of the alternative scenarios, but must be interpreted carefully, as on each model results crucially depends on the assumptions made individually *(UNCTAD 2004a)*.

The North American Free Trade Agreement (NAFTA), which came into effect from January 1st, 2004 did call off the majority of tariffs between the products, including Textile and apparels that traded among the US, Canada and Mexico, which gradually phased out other tariffs over a 15-year period. For example, Mexico benefited from this NAFTA, but in the post ATC, NAFTA does not guarantee the success as it used to be. Thus, the Mexico needs a full package production capability to be built to deal this situation. And Mexico's experience under NAFTA gives out the limit to rely on apparel exports as a development strategy. Only a small number and well connected local firms benefited during the post NAFTA production boom, with assembly and production subcontracted out to small firms which wasn't even enough for their survival in the industry.

The US firms currently control the design and marketing, whereas the Mexican companies engage in assembly. Since the 2000, the fortunes have been reversed for even the largest Mexican exporters due to the sluggish recovery in the US economy. The more capital intensive segments of the industry chain, including the textile mills, modernize washing and computerized cutting rooms seems to be relatively secure in Mexico. And also much of the production in the recent years has shifted to the lower wage nations in developing countries.

Aggregated risks at the regional level, due to quota elimination in US apparel import terms are estimated. The outcome was the highest risks faced by NAFTA countries (in this case, Mexico), where their preferential advantages was lost. Though, they have the advantage of keeping the tariff free access to the market. Mexico's apparel exports, an estimate of 90% to the US are at high risk, and also 75% of CBI exports to the US. The LDCs from sub Saharan African AGOA do face the similar, with a closer 84% of their exports to the US are at higher risk (see the Annex for a more detailed discussion). Whereas, the impact is lower on Asian countries, and perceived only 5% of China's exports are at high risk.

Table 4 US apparel imports, by source and risk level, 2002–2005
(Percentage*) Reference: Nathan Associates 2002*

Risk level	**NAFTA**	**Sub-Saharan Africa (AGOA)**	**CBI**	**Asia**	**China**
Low	9.3	2.2	11.2	16.4	44.0
Moderate	0.5	13.6	14.0	52.3	51.1
High	90.2	84.2	74.8	31.4	4.9
Total	100.0	100.0	100.0	100.0	100.0

Note. When there are products that are not restrained by the quotas, "Low" risk implies. Thus, quota elimination will make no difference. The "Moderate" risk category refers to the products, which are currently restrained for the producers in the region, where these restraints will end with the quota elimination. The "High" risk are the ones currently restrained for producers in other regions, but not for in the same given region. Though, the competitive advantage from this situation arising will end with the elimination.

China is the world's largest RMG exporter between 1997 and 2001 and has long been set up for the full package of 2001 / 2002. And China's market production share increased 5% points making it relatively easy for the US. While, other European and Japanese firms to source market supplier's share declined". In addition, internal market in China's clothing has been predicted to double, in 2000 from a roughly $50 billion to around $100 billion. *(WWD, 2003a)*. Total exports of textiles in 2004 released data from the Government enterprises accounted for about one third from China.

China's WTO accession includes an agreement called "a transitional product-specific safeguard mechanism", where the Chinese origin products importing to any another territory of a WTO Member, under increased quantities causing or cause to threaten the local market disruption with the domestic producers or with competitive products directly, the nation affected may request to consult with China in view to seek a mutual solution. Which will include the affected WTO nation pursue application regarding a measure under the safeguard agreement … If the consultations with China does not lead to a final agreement with the member nation within 60 days, then the WTO member shall be free in regard of such apparel products to withdraw the concessions or to if necessary to limit the imports from China only to a extent to prevent or remedy such market disruption in the concerned member nation.

The concept "market disruption" was used by the accession agreement and it stipulates the procedures of the place limitation on the duration and also provides saying that the safeguard mechanism in 12 years time will be abolished after the China's WTO accession. Until the 31st December 2008, the Chinese clothing and textile exports will be subject to the safeguard mechanism and the US has already invoked this agreement. In 2003 December the US implemented quota imports on five Chinese export categories, from which three in 2002 was liberalized *(Mayer 2004: 16).* Second liberalization would be from 2009 to 2013. The final one, which is the countervailing and antidumping measure application for the China's market economy was deferred for 15 years after the date of accession with WTO (until December 2016).

WTO members including Argentina, the European Communities with Hungary, Poland, Mexico, the Slovak Republic and Turkey made some reservations in the annex 7 of the WTO agreement to China's accession for quantitative restrictions, maintaining prohibitions, and other measures against only on selected Chinese imports in inconsistent WTO agreement manner. The WTO members in general, committed to phase out these embargoes by latest 2005. Until 2007, Mexico has been permitted to keep in place the antidumping practices. The Government of China announced in December 2004 to introduce export tax, a minimum regardless of the cost on each RMG. Therefore, it would mean a higher tax relatively on low-cost RMG than on the high cost products. From the 1st March 2005, the Interim Method for Automatic License of Textiles Export will be implemented in order to monitor export development in the post quota environment. This gives out to an export license, which will be applied for 216 textile products and apparels including shirts, trousers and children's clothing.

When compared with China, it does not offer the lowest prices in the competitive business and is a disadvantaged within the turnaround time. In favor with sourcing closer to the home, countries like the Turkey and Romania in EU, retailers on imports around as 30% from their total on lead time goes on in the competition. Therefore, retailers may be reluctant to heavily depend on only from one sourcing country and may for even risk for a diversification. Therefore, could retain the existing supplier relations with the producers in the other countries. This may also apply to the TNC producers too. China's strong growth may result in the increase of imports in textiles and other subsidiaries into its apparel export industry, which grows day by day from the other Asian countries like Japan, Taiwan, Korea and some others as well. Also some East Asian countries have accounted for those imports, which constitutes a highly fashion sensitive and highly quality clothing.

Manufacturers operating in the Central America and the Caribbean economies are fully subsidiaries of buyers from foreign brands like, women's under garments or the domestic firms which compete for the assembly contracts in men's wear with US retailers in mass volumes. The full package term has not deep routed yet in the Caribbean and the Central American countries and thus, these countries are not competitively advantaged and strictly derive from the characteristics which makes suited for the final product assembly terminology. Especially in Honduras and the Dominican Republic future prospects in the industry is not very promising, as they have not yet reached the industrial and technological standards to sustain their exports and also these countries are caught in the so called low value added trap.

6.3 Problems in Bangladesh beyond the Quota Allocations

There is this question whether Bangladesh will lose millions of jobs after the phase out in the years ahead? Main competitors for Bangladesh are China and India in the garment industry. With having a work force in Bangladesh consisting of 80% women and so far no alternatives for their futures, its becoming a serious social problem, that could erupt any time in Bangladesh if there is a major recession after this abolition era in the textile industry. Apart form that there are many bottlenecks retarding the growth of the industry locally as well as internationally, which are as following,

- *Unstable political environment with unfavorable law and order* - Political instability is one of the main causes giving out many violent strikes country wide, leading to many deaths and shutting down factories too. Due to the depreciating law and order situation in the country interest of both employees and employers has being affected.

- *Insufficiency in the development of the political measures for the RMG sector* - Unsuccessful initiatives for FDI in the export RMG Sector where, BOI will not approve without considering with BGMEA for FDI's falls out.

- *Insufficiency in the International Marketing Support* – Especially product diversification appears to be an indispensable strategy on this point.

- *Inadequate financial measures to consider* – There's inefficient financial support for the backward linkage industries, such as in spinning, weaving, dyeing, printing and processing. And also the other categories that falls are, unfavorable taxes and VAT for RMG, unfavorable tax for the new investments in the RMG, unfavorable Value Addition for the High Valued RMG, Banks having anomaly functions and finally inadequate cash support and export performance benefits.

- *The infrastructural bottlenecks* - Port crisis and congestions especially in the Chittagong port with customs delays, energy supply interruptions frequently country wide and even in export processing zones, congestions on the road and railway leading to daily traffic jams and finally poor tele - communication services out of major cities comes under this bottlenecks to be considered.

- *Inefficient services support for the industry* – Mostly unfavorable service charges comes for air and sea cargo in crucial times and also the slow, incompetent and corrupt custom services hinders the timelines with more local costs.

- *Inappropriate development in management and institutional initiatives* – There is an inadequate view exchange between BGMEA and in the nationalized bank director boards, policies for indecisive regional relocation in the RMG industry, lack of an acknowledgement for the needs in RMG for a Cabinet Committee and the government should be responsible for in recognition of the necessities of a delegation.

- *Recognition for the role in education and training in Labor Productivity for improvement* - The working condition improvement and work organization will result in the increased productivity and competitiveness in the industry like in the developed countries.

- Long lead times for Bangladeshi shipments, particularly like120 to150 days compared with India for 12 days becomes a major disadvantage to compete in the long run.

- The 12.5% tariff margin given by the EU on LDCs by duty removal on RMG imports will be soon under conditional rules of origin and thus, Bangladesh will have to face a hard time dealing with it.

- Higher yarn and textile prices will affect Bangladesh at the end of the ATC, if other exporting countries would redirect these to their own RMG industries.

- *Safety of workers and their health* – Many incidents in factories have occurred; especially when they don’t have adequate measures and the owners does not follow the proper standards. Some incidents reported by Clean Clothes Campaign are as following in Bangladesh,

  Year 2000: 53 died at Choudhury Knitwear Factory
  Year 2001: 24 died at Maico Sweater Factory

Year 2002: 12 dead at Globe Knitting Factory
Year 2004: 9 died at the Misco Supermarket building
Year 2005: 23 died at Shan Knitting and 64 died at Spectrum Factories making the worst ever incidents in Bangladesh
Year 2006: 63 died at KTS Textile Industries, 22 died at Phoenix and 3 died at Sayem Fashions Factories.

Recent study done by the Bangladesh Institute for Labor Studies shows that 130 workers in the garment industry died while on the job in 2005 and 480 were seriously wounded. Thus, it gives the seriousness of its nature without any proper legal measures for the victims.

6.4 Export Figures after the Quota Phase out

The below information taken from the BGMEA's Garment export data, gives out the recent export figures of the country. The Bangladesh textile and clothing industry has got two divisions and goes by as the woven and the knit sector.

Table 05: QUANTITY AND VALUE OF WOVEN AND KNIT EXPORT DURING 2005
Data Source Export Promotion Bureau Compiled by BGMEA

2005

QUANTITY AND VALUE OF WOVEN AND KNIT EXPORT DURING 2005

VALUE IN MN. US$, QUANTITY IN '000 DOZ

MONTH	EXPORT OF WOVEN AND KNIT (VALUE IN MN. US$)			EXPORT OF WOVEN & KNIT (QUANTITY IN '000 DOZ)		
	WOVEN	KNIT	TOTAL	WOVEN	KNIT	TOTAL
JANUARY	296.07	221.74	517.81	7536.75	9383.89	16920.64
FEBRUARY	292.92	196.06	488.98	7580.54	8397.53	15978.07
MARCH	264.55	231.41	495.96	6731.88	9869.20	16601.08
APRIL	236.57	215.08	451.65	6005.58	9033.66	15039.24
MAY	313.24	272.33	585.57	7935.77	11606.30	19542.07
JUNE	377.89	283.68	661.57	9771.15	12089.91	21861.06
JULY	362.79	345.25	708.04	10365.43	15010.87	25376.30
AUGUST	338.74	317.44	656.18	8095.89	13799.13	21895.02
SEPTEMBER	265.88	256.59	522.47	6922.93	11147.39	18070.32
OCTOBER	319.04	310.76	629.8	8461.8	13281.57	21743.37
NOVEMBER	247.43	230.28	477.71	7595.57	10231.91	17827.48
DECEMBER	374.48	329.92	704.40	9383.77	14339.13	23722.90
TOTAL	**3689.60**	**3210.54**	**6900.14**	**96387.06**	**138190.49**	**234577.55**

Table 06:

2006

MONTH	EXPORT OF WOVEN AND KNIT (VALUE IN MN. US$)			EXPORT OF WOVEN & KNIT (QUANTITY IN '000 DOZ)		
	WOVEN	KNIT	TOTAL	WOVEN	KNIT	TOTAL

JANUARY	354.15	296.67	650.82	9509.41	12502.99	22012.40
FEBRUARY	352.36	282.98	635.34	9374.56	12192.85	21567.41
MARCH	349.64	314.32	663.96	9316.63	13542.16	22858.79
APRIL	293.41	322.95	616.36	7739.40	13956.32	21695.72
MAY	391.06	387.68	778.74	10410.34	16789.89	27200.23
JUNE	437.11	421.37	858.48	11639.48	18228.70	29868.18
JULY	451.91	452.94	904.85	12937.59	19779.04	32716.63
AUGUST	461.89	446.91	908.80	13172.7	19604.33	32777.03
SEPTEMBER	351.87	349.05	700.92	10044.76	15292.34	25337.10
OCTOBER	311.38	351.68	663.06	8881.19	15368.05	24249.24
NOVEMBER	330.3	314.96	645.26	9423.23	13766.74	23189.97
DECEMBER	459.71	447.21	906.92	13199.67	19571.99	32771.66
TOTAL	**4544.79**	**4388.72**	**8933.51**	**125648.96**	**190595.40**	**316244.36**

Source, BGMEA, 2007

Table 07: VALUE AND QUANTITY OF TOTAL APPAREL EXPORT

VALUE AND QUANTITY OF TOTAL APPAREL EXPORT

FISCAL YEAR BASIS
(VALUE IN MN. US$ QUANTITY IN MN DOZEN)

	TOTAL APPAREL EXPORT IN MN.US$			TOTAL APPAREL EXPORT IN MN.DZ		
YEAR	**WOVEN**	**KNIT**	**TOTAL**	**WOVEN**	**KNIT**	**TOTAL**
1992-93	1240.48	204.54	1445.02	36.05	10.66	46.71
1993-94	1291.65	264.14	1555.79	34.35	10.81	45.16
1994-95	1835.09	393.26	2228.35	47.21	15.30	62.51
1995-96	1948.81	598.32	2547.13	48.82	23.18	72.00
1996-97	2237.95	763.30	3001.25	53.45	27.54	80.99
1997-98	2844.43	937.51	3781.94	65.59	32.60	98.19
1998-99	2984.96	1035.02	4019.98	64.79	36.66	101.45
1999-2000	3081.19	1268.22	4349.41	66.63	45.27	111.90
2000-2001	3364.32	1495.51	4859.83	71.48	52.54	124.02
2001-2002	3124.82	1458.93	4583.75	77.05	63.39	140.44
2002-2003	3258.27	1653.82	4912.09	82.83	69.18	152.01
2003-2004	3538.07	2148.02	5686.09	90.48	91.60	182.08
2004-2005	3598.20	2819.47	6417.67	92.26	120.13	212.39
2005-2006	**4083.82**	**3816.98**	**7900.80**	**108.82**	**165.02**	**273.84**
2006-'07 (Dec)	**2368.07**	**2362.29**	**4730.36**	**67.65**	**103.38**	**171.03**

Table 08:

MAIN APPAREL ITEMS EXPORTED FROM BANGLADESH

(VALUE IN MN. US$)

YEAR	SHIRTS	TROUSERS	JACKETS	T-SHIRT	SWEATER
1993-94	805.34	80.56	126.85	225.90	….
1994-95	791.20	101.23	146.83	232.24	….
1995-96	807.66	112.02	171.73	366.36	70.41

1996-97	759.57	230.98	309.21	391.21	196.60
1997-98	961.13	333.28	467.19	388.50	296.29
1998-99	1043.11	394.85	393.44	471.88	271.70
1999-2000	1021.17	484.06	439.77	563.58	325.07
2000-2001	1073.59	656.33	573.74	597.42	476.87
2001-2002	871.21	636.61	412.34	546.28	517.83
2002-2003	1019.87	643.66	464.51	642.62	578.37
2003-2004	1116.57	1334.85	364.77	1062.10	616.31
2004-2005	1053.34	1667.72	430.28	1349.71	893.12
2005-2006	**1056.69**	**2165.25**	**389.52**	**1781.51**	**1044.01**

Table 9 : VALUE AND QUANTITY OF TOTAL APPAREL EXPORT

CALENDAR YEAR BASIS

(VALUE IN MN. US$ QUANTITY IN '000 DOZEN)

	TOTAL APPAREL EXPORT IN MN.US$			TOTAL APPAREL EXPORT IN '000 DZ		
YEAR	**WOVEN**	**KNIT**	**TOTAL**	**WOVEN**	**KNIT**	**TOTAL**
1,994	1,545	342	1,886	41,642	13,769	55,411
1,995	1,976	512	2,489	49,377	19,828	69,205
1,996	1,942	686	2,629	47,537	26,107	73,644
1,997	2,621	810	3,432	60,560	27,998	88,558
1,998	2,871	976	3,847	64,230	34,588	98,817
1,999	2,988	1,170	4,158	64,939	41,304	106,242
2,000	3,376	1,448	4,825	71,634	51,588	123,222
2,001	3,162	1,433	4,595	67,725	50,180	117,905
2,002	3,076	1,573	4,650	83,444	70,715	154,158
2,003	3,399	1,850	5,249	85,829	80,504	166,333
2,004	3,687	2,533	6,219	94,223	104,904	199,128
2,005	3,690	3,210	6,900	96,387	138,190	234,578
2006 (Dec)	4,545	4,389	8,934	125,649	190,595	316,244

Table 10 : COMPARATIVE STATEMENT ON EXPORT OF RMG AND TOTAL EXPORT

YEAR	EXPORT OF RMG (IN MILLION US$)	TOTAL EXPORT OF BANGLADESH (IN MILLION US$)	% OF RMG'S TO TOTAL EXPORT
1983-84	31.57	811	3.89
1984-85	116.2	934.43	12.44
1985-86	131.48	819.21	16.05
1986-87	298.67	1076.61	27.74
1987-88	433.92	1231.2	35.24
1988-89	471.09	1291.56	36.47
1989-90	624.16	1923.7	32.45
1990-91	866.82	1717.55	50.47
1991-92	1182.57	1993.9	59.31
1992-93	1445.02	2382.89	60.64
1993-94	1555.79	2533.9	61.4
1994-95	2228.35	3472.56	64.17
1995-96	2547.13	3882.42	65.61
1996-97	3001.25	4418.28	67.93
1997-98	3781.94	5161.2	73.28
1998-99	4019.98	5312.86	75.67
1999-2000	4349.41	5752.2	75.61
2000-2001	4859.83	6467.3	75.14
2001-2002	4583.75	5986.09	76.57
2002-2003	4912.09	6548.44	75.01
2003-2004	5686.09	7602.99	74.79
2004-2005	6417.67	8654.52	**74.15**
2005-2006	7900.8	10526.16	**75.06**
2006-2007(Dec)	4730.36	6220.61	**76.04**

Reference, BGMEA, 2007.

CHAPTER 7 FINDINGS & ANALYSIS

7.1. Analysis of the questions

The questions forwarded to the professionals in the apparel / textile industry were open ended and were unstructured. The type of questions depended on the position and the know how of the individual. Though the central idea of the questions were as of **a)** What changes did they anticipate before removal of quotas **b)** what changes are they facing after quota removal **c)** what did they do to adapt with the quota less regime **d)** What they think the future will hold for them.

The questions were forwarded with the idea to elicit as much information as possible. The qualitative responses from the forwarded questions and the quantitative data from export figures till end of 2006 from different published sources were studied. And also extracts from previously done interviews from different published sources were taken for the recency of information, which were relevance with our work.

7.2 Responses from various professionals in the Apparel / Textile industry

A) Mr.Jithendra Bhatia: Steve & Barry's University Sportswear

Sr. Manager Strategic Sourcing & Supply Chain

As the labor wages are very low, the retailer or buyer would prefer to place business in Bangladesh. China still has got the quota and with Africa AGOA (Duty free) coming to end next year, its definitely worth looking at BD due to low cost and their experience in the garment industry. But every one is worried what happens after the year 2008, which China will be back in the market with no quota restrictions. With the quota away, the Europe business has definitely increased from BD as they have the GSP+ (Duty free), as for the US sector the business is growing in BD due the quotas in China till 2008.

Last month (July 2006) there were riots in the EPZ factories due the wages and a lots of factories were closed. Also the social Compliance will play an important role, where many factories are moving towards the social compliance in BD at this point of time and they are shifting from Dhaka city to the outskirts of the capital.

B) Mr. Ali Anwar, Operations Manager; Apex group

In the woven sector of Bangladesh, initially there were some doubts whether that Bangladesh will survive after the quota phase out or not. Though, the practical side from experience was different than what the initial thoughts were, which founded out that the textile and apparel industry in the country was in full progress in production and far better than the previous stages, due to the sudden market boom. Even with a good communication to have in future with the optical fiber link in progress, it seems Bangladesh is facing for a brighter future than the previous thoughts.

At present the major problem the entire industry is facing in this woven and knit sector is especially on the labor side, but hope the future will have a good resolution with effect with the stabilize political situation in the country as of now. Though, the wage for labor should be increased considering in decreasing the ongoing riots. And this could have a bad effect to this year though with the prediction of 30% excess shipments. And basically as the US and EU authorities does not want China to dominate the RMG market, with forcing the sudden quota issue on China till 2008, Bangladesh will go for better prospects and also more new investors are targeting the market aiming with the long run, that is a good initiative for the country with a prediction of 30% in excess.

When considering the knit sector examples like in Sweaters etc., few months ago in 2006 BKMEA did organize a Knit Fair in New York, where most of the major buyers from USA and Canada participating, with a good turn over result on the sector as many new orders were placed by them. Though, the maximum orders in knit items are imported by the EU buyers than the US or Canada from Bangladesh. Especially the H&M, they are the biggest buyers in knitwear from the country.

C) Mr. HARBIR SINGH: Sales & Merchandising Manager, Simple Approach Ltd., Kowloon, Hong Kong.

CHINA: the dragon is losing it!

China did increase its capacities, and some of the most modern and biggest fabric and apparel manufacturing plants were set up in preparation for the quota phase out. The infrastructure growth and development of economic zones was also a step in the positive direction – but alas, China's reputation preceded its intentions – and due to anti dumping laws initiated by many countries, quotas were still in place for China till 2008. This is the last year for implemented quotas in China, and the quota price is sky rocketing, making apparel production in China almost unviable. Only Fashion and high UVR business can flow into China right now, as that can suffice for the high quota cost.

Other than that, China has been one of the topmost growing economies of the world in recent times, and recently its economy also overtook Germany's. This is because China is now becoming highly industrialized, and in actual terms, apparel industry is becoming one of the least important industries for the government. People are getting better salaries in other jobs than garment factories, which is also causing the garment production rates to go up in China.

To make things worse, government of China has reduced the export subsidies with the garment exporters, and the RMB is steadily climbing up the currency valuation ladder. All these factors are making production in China very expensive now.

The repercussions of the above is that quite a lot of China Factories have opened offices in Hong Kong and South Korea, and they are doing OPA shipments proving on documents that some part of production has happened in these routing countries. Doing this, they can use Hong Kong or Korea Country of Origin on the garments, and get away with the high quota prices. This may or may not be illegal, but everybody knows that Hong Kong and South Korea are too expensive to manufacture the garments. But still this garment export route is active.

Other than above, Garment Production in China is moving out form the developed provinces like Guangdong, and is moving northwards – to obscure regions, where people are relatively poor, and can work in low wages.

How long will this pattern survive is anybody's guess.

INDIA: why make garments? Let's retail them!

On the other hand – India really did not do much in terms of preparation for the quota phase out. In India, the governments kept applauding themselves for the plans and initiatives in terms of SEZs – but effectively not much really happened. Capacities generally hovered around the same mark, and the growth in export was in conjunction with the previous year's growth patterns. Though there is no quota for Indian Exports – they are still not priced competitively – reason being that like China, Apparel Industry is not the most important for the developing nation anymore.

There is a mass shift from the poorer sections of the society in India to the so called middle class. Small towns are becoming more and more urban by the day. Consumption patterns are changing and incomes are rising every year.

The state of the economy is improving at a greater pace – however the infrastructure growth is still poor which drags the overall growth down. On top of that the Rupee has appreciated to its best in the last 10 years which has made export in USD and Euros more expensive for the manufacturers. The suppliers who had booked orders 3 months ago are struggling to maintain their prices, or are completing their orders as a service to the customer – and not making any profit on it. For the coming seasons the prices seem to be higher, and the outlook is that the percentage growth will be negative this year (2007).

Other than that, India is the next haven for Retail Giants like Walmart, Reliance, Tesco, and Carrefour – who are setting up their own retail chains. Which means that India will recycle some part of its own production going forward, or it may also import from cheaper countries in the Asian subcontinent?

This shift from a producer to a consumer also has all the trained professionals in the apparel industry to join the retailers in the buying process rather than the producers in the manufacturing process. In future it seems that there will be a shortage of trained professionals in the manufacturing field as well.

So phasing quotas also could not really save the day for the Indian Exporters. The outlook is that the rupee will appreciate further, causing more trouble to India's exports in all possible categories (not only apparel).

BANGLADESH: The young gun

Bangladesh has been the gainer from all the other manufacturing countries who have seen falling exports. This tiny country lives on a GDP which is supported approximately 75% by apparel exports. Every 50 meters or so – you will find a garment making factory.

To give an idea on the scale of production here, its apparel exports were 9 billion USD last year – in comparison to India's at 8 billion USD. This country has thrived on apparel exports due to no quotas, and duty free access to EU and Canada. Most European Apparel Brands and retailers find this as their favorite destination for buying garments – as it is very cheap and on top of that they get it duty Free into Europe.

European Retailers like H&M, IC Companies, KAPPAHL and M&S have set up sourcing offices in Bangladesh, and are producing massive volumes there. This has in turn seen the growth of Bangladesh from small factories to huge state of the art manufacturing units.

In the last few years – Korean & Taiwanese fabric mills have set up fabric capacities in Bangladesh, and garment manufacturers both from China and India are looking to set up factories there to use the competence they have developed during the apparel manufacturing hey days in their own companies.

Bangladesh has thrived in Sweaters (flat knits) and Circular Knit categories in particular. Bangladesh C/O products are duty free for EU when the garment and the fabric – both are produced in Bangladesh. For Sweaters even though the yarn might be imported – the panel knitting and linking happens in Bangladesh so it qualifies for Duty free anyway. For circular knits – many companies have set up vertical facilities to make fabric and garments, which is giving a boost to this sector.

Woven RMG still is the bastion of the big vertical suppliers, who have fabric production capacities and garment production capacities as well.

Otherwise, Bangladesh has seen an improvement in the infrastructure – with good hotel's opening up and a decent airport which is well connected. All this is in favor of this tiny country and it will positively grow in the future.

NEW DESTINATIONS?

History has shown us that Apparel manufacturing is the easiest industry for a nation to get into, as it generates foreign currency and gives employment to massive numbers. So hypothetically it is the industry of choice for least developed countries.

New destinations to watch out for are Vietnam, Cambodia and Myanmar – which have extremely low prices and are stepping up production capacities.

PATH FORWARD

To sum up this whole shift – we can easily recognize that this industry will keep shifting to cheaper sources as the present bases become more expensive or unviable. For a Long term business in Apparel Manufacturing to survive – it needs to have continuous growth in terms of capabilities and products. They need to be a step ahead of the competition.

It is a matter of time that the world's garment production moves next to the Dark Continent – Africa, which will be the last resort for cheap production.

I wonder what will happen, when the whole world urbanizes!!!!

D) Mr. Arif Rahman, Director: Bengal Knittex Ltd.,

As of this date, the support from the government can be termed as of moderate. We have received back to back Letters of Credits, cash incentives, duty drawback systems, import of machinery for duty free rates, bonded ware house facilities and some other important facilities in areas of utility services like in the form of reduction in VAT. Government recently did lift a ban on importing yarn through the Land port in Benapole, which we have been demanding from them for the last couple of years, and thus, it is a significant development for the industry and will sharply increase the industry's growth strongly. Though, the government has failed poorly to assure us the minimum requirement in electricity supply, even when considering the gas pressure, which decrease's in a alarming rate in the country. In many cases physical infrastructure has deteriorated and the facility in port has become worse. If these sections are not focused and dealt out on a priority basis, improving immediately, it could then act as a detriment in the industry, where as of we would not be able to reach our target levels.

Productivity from labor has become a serious issue these days in Bangladesh. Though the labor is cheap to some extent, but we have failed converting the advantages comparatively to the advantages competitively as we have a lower labor productivity compared to other countries in competition like China and even Sri Lanka. Therefore, we have taken this issue seriously and thus, working in increasing the labor productivity from the farm level. As I mentioned previously, that have taken up on the productivity improvement programs and we are expecting it to run it shortly. And if it becomes successful, then we will focus and progress a lot in this area particularly. One of the main aspects of the higher productivity is from uninterrupted power supply, as currently we have many power shortages and factories operating mostly in the sector are SMEs, therefore it is not always an option and a possibility for them in having captive power generating backup systems. If that is the case, then they will have to work more extended hours to make up for the loss in production. And also we have under taken many programs on the social compliance sector to improve the working conditions.

E) Mr. William Lakin: European Apparel and Textile Organizations Director General

In recent years it is has been clear that we have seen a proliferation further in non tariff barriers, by the way, which are harming to our 40 billion Euro exports annually to the rest of the world. Realistically I am not sure however on the point that, if many developed countries does prevent textile goods entering their home territories from countries other than that of China. I have the impression moreover; that a number of developing countries would always welcome back a return to the abolished quota system and the previously offered market security to they had without fear.

Developing countries which are more vulnerable to the situation and who derive from textiles and clothing a major proportion of their export revenue should be placed in a very difficult situation and I personally regret it very much. However, this is very clearly is not the result of desires or actions on the part of EURATEX and its members. Quota free trade was offered to many countries in 2001 in return for the wider market access they received from it, the concept of “Everything But Arms” we embraced for the least developed countries, and have approved many of the Commission's proposals to grant preferences to those most in need.

It is however the Commission’s responsibility and member states to ensure that within agreed limits China stays back and that there is no repeat of the summer of 2005 situation.

As per the Doha Round, we need to achieve the open markets for our export products and also to ensure the worldwide respect for our designs, models and brands as provided in the TRIPs agreements. An internal market is fully needed which will be capable of substantial growths in the years ahead and need predictability like our colleagues elsewhere in the world, with a lower rate of exchange, access to credit improved and also commitment increased from the concerned authorities to research and development.

F) Shamsul Kobir: Factory Manager, Phoenix Textiles

There was and is a continuous ongoing process to modernize the knitwear and textile industry in Bangladesh. The factories that are recently built have installed the latest of the branded machines available in the industry. Even the “dyeing industry” has got the latest machines and the technology for the outputs. As it was a continuous process, so far we are not facing any 'technology gaps' in the industry with other competing countries. Machinery exhibitions are also held each year in the country, bringing the latest of all technology and the new equipments to the industry, giving an exposure and adapting them immediately.

The move by Pakistani Investors is an encouraging factor for Bangladesh in overall and In fact, we welcome the initiative by them and last week we had a very fruitful meeting particularly in the knit and allied sectors with the All Pakistan Textile Processing Mills (APTPMA) and also with the Pakistan Hosiery Association (PHMA) regarding the investments and other issues in Bangladesh. The discussion outcomes are quite optimistic, so thus we hope they will invest substantially over here. Particularly we encouraged them in investing in the Dyeing industry. Also we have signed a MoU with the PHMA, regarding cooperation’s in investment, technological transfers and in other areas of interests. If they do invest, it will be a major break through in the industry, which also will help us to market our investment climates to others. There are queries from certain other countries too, regarding on investment in the knitwear sector specially. As a whole, the total picture is very positive for us and this all means, that we have things that can be offered for international investors as well.

G) Mr. Md. Fazlul Hoque: President of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA).

The knitwear industry is experiencing a phenomenal growth especially in the USA and a growth in other parts of the world is also in line with our expectations. Particularly the growth in the USA after the post MFA is around 70% and is very encouraging to us. As we were concerned about this situation and thus, we were considering it as a new destination for BD. The other factor is the booming job market with the knitwear sector’s growth. With all these points in mind, I do not agree of some people’s opinion on the textile and knitwear industry, saying it is on a critical stage at moment.

But on the other hand the woven industry is having a tuff time after the post MFA and is passing through a critical stage, as their growth has reduced radically. Generally this is not good sign, as they are yet to face a decline in the terms of quantity or value. Bangladesh is too much dependant on the RMG industry and therefore, the burden cannot be borne by any sole sector no matter how big it is, as the scenario makes the economy vulnerable.

To overcome these barriers, we need to diversify our export basket and at the same time we also need to diversify our RMG products. As of today our main two export items have been outer wears specifically like T-shirt’s and sweater’s, but we also can think on under garments as we have the explicit desire of buyers to source these products from Bangladesh itself.

BKMEA was always optimistic, as far as the post MFA is concerned. Our remarks were always over shadowed by the so called “big guns” like World Bank and ADB, but we were always on the opinion that knitwear industry will perform well in the post MFA in Bangladesh. We said positively that we would do better, when we were holding our first Knit Exposition in September 2004, but on the same day ADB held an interesting press conference and said that particularly the knitwear industry in Bangladesh will be affected. We were not afraid but were astonished on their remarks, this comment made the investors and others shaky and to think twice. If not for this comment, we would have attracted more investments and our growth rate would have been much higher.

I must particularly mention the contribution of the entrepreneurs and thank them, who actually made it happen and proved that the big guns were wrong. These entrepreneurs not only invested in sewing units, but also invested in the allied industry simultaneously: knitting, dyeing, printing etc. which has helped so far to prepare us for the post MFA. This so called backward industry, which is particularly important us to reduce the lead time has provided strong control over the quality standards too. This backward industry was also very helpful before the post MFA era to get the GSP facility from the EU and it has helped us grow with the facility side by side.

7.3 Analysis of responses

The responses were tabulated as shown below.

Respondent No	What changes did they anticipate before removal of quotas	What changes are they facing after quota removal	What did they do to adapt with the quota less regime	What they think the future will hold for them
1				
2 ..				

7.4 Summary of the responses

The findings were four fold in nature and those are given below.

What changes did they anticipate before removal of quotas

In response to this question most respondents in Bangladesh held that they were not apprehensive of the quota removal. To justify their claims they say that

a) They knew their buyers
b) Were in communication with the buyers
c) Knew their product's merits

d) Unaware that China had made inroads into their established segments

What changes are they facing after quota removal

In response to this question most respondents in Bangladesh held that until now there is no negative impact

Every year RMG exports grew by 18.61% as on 2005 compared with 2004
Airfreight to Europe increased by 20%, carrying RMG till June 2006.
There is same demand as before with the established buyers
The drive for export growth fearing quota removal (fairs, exhibitions) has mainly contributed to extra business. (35% increase till May 2005, as per Export Promotion Bureau of Bangladesh)
The market itself has grown.
The buying prices of goods have increased
Bangladesh’s Taka devaluation

What did they do to adapt with the quota less regime

In response to this question the role of BGMEA (Bangladesh Garments Manufacturers and Exporter’s Association) at various levels were anticipated being effective.

Lobby government to reduce Infrastructural in adequacies.
Conduct Fairs, Exhibitions, and Seminars to promote Bangladeshi Garments
Lobby foreign government for duty free access (US mainly with no success till now)
Train their staff for efficiency.
Starting 1996, laying down code of conducts for work environment of the labors, Banning Child labor in RMG sector
Becoming more environment conscious.

What they think the future will hold for them

In response to this question all the respondents were optimistic to various degrees, though there were reservations with regard to the political scenario, infrastructural weakness, and pro-Export business policy. The points of agreement on the brighter side were more related with their company’s adaptability with increased competition within the country than without. The over all macro indicative points included,

Creating of back ward linkage, with companies wanting to move into yarn making business.
Cheaper raw materials.
More expensive labor costs
More environmentally conscious work environment to keep up buyers requirements.
‘Less competition’ as hope prevails that US government will put restrictions of Chinese exports

or favor exports from LDCs (apart from sub Sahara region) through duty free access. Same goes for EU.

7.5 The Research Questions

- ✓ ***What impact did quota have on the growth of textile industry in Bangladesh?***

Against all grim predictions, (as apparent in our literature reviews mainly done in 2003-2005) Bangladesh has so far fared well. Data compiled by the BGMEA (ref: Chapter 7) shows that in the fiscal year 2003-2004 export earning from RMG stood at US $7.6 billion, while, in 2004-05, which included the first six months of the quota free regime, exports rose by more than US $1 billion registering a growth of about 19%. The growth rate in 2005-2006 was an even more impressive 23.5%. The growth trend of the last fiscal year was also encouraging. During June 2006- January 2007, exports of woven garments and knit ware were, respectively US $2,698.50 and US $2,636.87 million compared to the previous year's corresponding period's US $2,262.54 and US $2,086.23 million, registering an increase of 27.80 and 27.84 percent respectively.

During the same time several weaknesses became apparent in the Bangladesh's RMG sector. The cause for concern for Bangladesh is the relatively weak growth performance of woven garment export. Knit ware products have principally driven the recent export growth in RMG. Historically, the US has been the main market for woven garments and the EU a destination for knit products. After the quota phase out, there have been an enlarged exporting opportunities for knit ware in the US, along with an expansion in woven garments in both the markets. However, EU imports of woven garments from Bangladesh declined by about 12% in 2005. However, the situation improved last year.

Most woven garments made in Bangladesh have low domestic value added content, and, therefore, do not qualify for EU's GSP facilities. According to one estimate, Europe is the destination for 35% of Bangladesh's woven exports, of which only 40% receive GSP benefits. A significant proportion of Bangladesh's apparel exports to the EU are subject to the MFN duty, which is averaged around 12%. Before the phase out of the MFA, it was thought that Bangladesh would not have any problems in the EU market because of the GSP tariff preference. However failure to satisfy EU rules of origin made a large proportion of woven garments ineligible for Duty Free entry.

- ✓ ***What are the uncertainties that affect the Quota regime?***

This research question has been discussed thoroughly in the "Chapter 04" under the topic "Uncertainties of the Quotas" from pages 18 to 26.

- ✓ ***What gradual impact has the quota removal, on Bangladesh's and competitor's garments industry?***

Pakistan has earned a valuable name in vertical processing from Yarn to Garments, and had done well apparently till sometime back, when the stories of religious fundamentalism and terrorism have harmed its reputation. Buyers are not traveling there often, and the outlook is not great.

Indonesia is becoming very expensive day by day, and it is anyone's guess on how long it will survive.

Sri Lanka has got similar problems like Pakistan, due to the LTTE terrorism, and otherwise due to the economic imbalance, the country is becoming way too expensive for apparel production. We will have to wait and watch here the outcome.

China: China did increase its capacities, and some of the most modern and biggest fabric and apparel manufacturing plants were set up in preparation for the quota phase out. The infrastructure growth and development of economic zones were also a step in the positive direction, China's reputation preceded its intentions – and due to anti dumping laws initiated by many countries, quotas were still in place for China till 2008. This is the last year for the implemented quotas in China, and the quota price is sky rocketing, making apparel production in China almost unviable. Only Fashion and high UVR business can flow into China right now, as that can suffice for the high quota cost.

To make things worse, government of China has reduced the export subsidies with the garment exporters, and the RMB is steadily climbing up the currency valuation ladder. All these factors are making production in China very expensive now.

Other than above, Garment Production in China is moving out form the developed provinces like Guangdong, and is moving northwards – to obscure regions, where people are relatively poor, and can work in low wages.

Bangladesh has been the gainer from all the other manufacturing countries who have seen falling exports. Bangladesh's apparel exports were 9 billion USD last year – in comparison to India's 8 billion USD. This country has thrived on apparel exports due to no quotas, and duty free access to EU and Canada (as apparent from 2006 figures and figures up to July 2007- see preceding chapter). Most European Apparel Brands and retailers find this as their favorite destination for buying garments – as it is very cheap and on top of that they get it duty Free into Europe. The Crux of Bangladesh's achievement inspite of dire warning from pundits and academicians can be summarized as below as which we found from various interviews and newspaper articles

With the growth of the garment sector, a group of world-class entrepreneurs emerged in Bangladesh and confronted the changed global trading environment with courage and ingenuity. They succeeded in establishing long lasting mutually supportive business relations with leading buyers in North America and Europe.

With the phasing out of MFA and gradual integration of trade in textiles and clothing in the GATT regime many exporters came out of the “demand pull” scenario and embarked on a campaign of “supply push” in the global market place. The tariff concessions that the EU and Canada granted to LDCs were particularly helpful. A depreciating taka enabled them to offer more competitive prices.

In the apprehension of possible annihilation in global competition, exporters modernized their supply chain management using ITC and other modern management tools also adopted more advanced technology and production techniques to increase productivity in their factories. Productivity also increased as the worker’s skill improved in most cases through the “learning by doing”.

Workers fear of losing their jobs worked very hard eventually and fully cooperated with the factory management by working late hours, and sometimes seven days a week.

Last but not the least that contributed positively to Bangladesh’s export competitiveness is the depreciation of its currency. Bangladesh maintained a managed exchange rate regime for more than 20 years, and then embarked on a freely floating exchange rate system in May 2003. Though the taka remained stable initially for a year and a half, it experienced significant depreciation.

The depreciation of the Taka coincided with the phasing out of the MFA regime. A comparison of nominal exchange rates of several Asian currencies vis-à-vis US dollar shows that only Bangladesh taka depreciated, particularly during 2004-06. The Chinese Yuan and Indian rupee had somewhat appreciated during the same period. After adjusting for the changes in the domestic price levels, it was observed that the real exchange rates of taka vis-à-vis all these currencies depreciated significantly since the MFA phased out. The considerable depreciation of the taka in the post MFA period, and the restraints on the Chinese exports by the EU and the US, has enhanced or at least protected the international competitiveness of Bangladesh exporters and thus helped it in enlarging its share in the global apparel trade.

CHAPTER 8 CONCLUSIONS

Most literature we have reviewed, consistently point out that Bangladesh will loose out with the quota removal with the beginning of 2005. This is more accurate for the academicians who researched and published the work before 2005. One study done by Spinanger and Verma (2003) indicates that exports will increase by 17%. This only is in line with the 18.6% growth that was observed for the year 2005. The stalled growth in year 2006 may be an indicative of competition getting tougher or Bangladesh consolidating its hold on the growth markets. (Though, still this study is too early to provide any solid conclusions.)

The views of Professor Mustafizur Rahman, who is the director for the research centre in policy dialogue of Dhaka University, Bangladesh expressed, as the common consensus among the different respondents that reflect the mood and the idea post 2005. According to Professor Rahman from last few years the textile industry has changed dramatically and he has two points of view on this. Firstly, when China joined the World Trade Organization in the year of 2001 eventually becoming the global market member, Bangladesh then started to feel the pinch of it. Secondly, many thoughts were that in 2005 with the MFA phase out, a huge part of textile industry would not be able to survive. Prof. Rahman did forecast that not the year of 2005 but the year of 2008 will be the crucial year in the industries survival, when all the safeguards would be eliminated. The strongest part of the textile sector in Bangladesh is knitwear, particularly t-shirts and sweaters. As the woven sector of knitwear industry does not require that much of a capital investment, thus this woven sector is getting prominence in the country. Since there is competitive advantage for the Bangladesh knitwear sector, it has got a strong backward linkage. The debate about the woven sector in trousers and shirts is that, whether Bangladesh should import from other countries which they already got a competitive advantage than Bangladesh or should Bangladesh improve its backward linkage to come over it.

For example China, Pakistan and India have these kinds of competitive advantages in particular. Presently the woven sector of Bangladesh is enjoying the support from government in this phase out period with a 5% cost compensation while using its local products. The phasing out started with 25% compensation and probably will going to be zero percentage over next years. The woven sector of Bangladesh has strengthened up lately and from 4% to 20% the local market size has also increased over past ten years.

The Bangladesh textile industry as a whole is developing but is not possible to have any competitive advantages than its competitors in all the sectors, though certain particular sectors are to be chosen out of it. At a rapid speed the RMG sector is growing than the other competitors'. Apart from the low labor cost in Bangladesh, it also has a competitive advantage in the productivity field of growth, but have to keep several factors in mind from competitors. Firstly, china will not be the global supplier for everything in demand to all the countries and secondly, outside investors won't take a major risk to invest in one country and would like to diversify the imports from several other countries. Thirdly and finally, the Bangladesh industry lies in the lower part of the textile scale, which implies that they earn profit from a huge production with less diversification within the products. On the other hand China is tending to a mid market and their advantages are of different than what Bangladesh has. Therefore, this provides some space to breathe for Bangladesh.

There are three major problems through which the Bangladesh textile industry is suffering. The main competitive advantage of Bangladesh is on the low labor wage, but at present with the increase of oil and rice prices, thus there will be change in the labor market. Consequently, as a result the wages will also change with the shift in pace. With the help of technology productivity has to be increased, but the labor force of Bangladesh unfortunately does not have enough technological skill to operate the machines, therefore many expatriates who have knowledge on these new technology are working taking the labor shift from locals. Hence, there is scope of improvement in the field of technology. The final problem is that lead-time is not maintained, which will be the main reason especially after the year 2008 to have a down fall and three factors can be done to mitigate this affect.

Firstly, the backward linkage can be strengthened by the government to support it. A Central Bonded Warehouse (CBW) secondly can be instituted. It is a type of warehouse in which the fabrics are stored and helps to meet the requirements rapidly when an order is placed. Thirdly, the trade facilities of Bangladesh can be improved with the ports have to be modernized and improved for more efficiency for example. In reality the cost of Chittagong port is than of Singapore is of three times. The textile industry should hear to new requests by buyers and customers to satisfy their and laws and requirements.

The consumers are vital in the process of imports, as they demand particular requirements such as having minimum wages, working environment and child labor abolitions. To meet such compliance requirements there are two points to consider. One viewpoint is that if the working environment is improved it will cause costlier and might also undermine the competitiveness with rivals. This process can be more expensive and may even take the textile industry to away to low margins, though it is requirement by the customer which have to be adhered strictly too. The price will go up as well as the productivity, but that will increase the cost and decline the profits the other way around. In order of meeting these requirements from customers, the work skills for instance could improve with a positive manner. According to Professor Rahman it should be treated as the package and he is in support of increasing the cost since the productivity too increases.

For Bangladeshi products the US is the largest importer, even though the imports can be increased more if the duty free access is received like some other Caribbean and African countries. There is zero percent tariff access to Japan on apparels, but Japan does not import a huge amount of products as Japanese are more conscious in quality and fashion, where as Bangladesh cant meet those requirements at present. In opinion of Professor Rahman, the focus point of Bangladeshi's should be the Japanese market. Bangladesh gets free access to Canada, though unfortunately it has a small market to compare. The EU is providing a large market for Bangladesh especially in the knit ware sector in particular which is gradually increasing, though the market for woven is decreasing on the other hand, because China and India has entered it with their own advantages. Professor thinks that in the near future Bangladesh should export to other developing countries as well, as Bangladesh is enjoying some advantages even in Russia, India and China.

From medium to long term, the industry in Bangladesh should look for opportunities as they have advantages in low wages, skilled workers relatively and it is the only LDC which can export in mass volumes and still maintains a strong relationship with its buyers. Between China and Bangladesh, a winner or looser situation will not arise as the whole market is growing and vast growth of global trade is anticipated, thus the situation can be a win/win one as per the belief of professor Rahman and also is positive about the future and believes that Bangladesh should maintain its market share in consideration.

8.1 Remarks and prospects for future studies

Since the quotas were not fully removed in January 1st 2005, and because of newly placed safeguards (e.g. by U.S. on Chinese textile imports that will not fully be eliminated until 2008), further research within this subject should be conducted after 2008 when quota restrictions are no longer applicable. After 2008 the full of Chinas' resource capacity will be visible and the world will be greatly affected of this nation's huge capability. Bangladesh as well as other developing nations that are dependent upon their textile and clothing industry will then stand before even greater difficulties and the question is, will Bangladesh then once again be able to keep the optimistic appearance visible?

History has shown us that Apparel manufacturing is the easiest industry for a nation to get into, as it generates foreign currency and gives employment to massive numbers. So hypothetically it is the industry of choice for least developed countries.

New destinations to watch out in near future are Vietnam, Cambodia and Myanmar – which have extremely low prices and are stepping up production capacities.

The infrastructural inadequacies of Bangladeshi industry, for the last 25 years, have been protected by the quota regimes. But, with the removal of quotas we can see that the 'efficiency' part needs to be addressed by Bangladeshi RMG industry. Be it through induction of latest technology as it is happening in countries like Thailand, South Korea, or by making the work force more skilled so that their out put is in better quality and quantity wise.

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www.cia.gov/cia/publications/factbook/

www.emergingtextiles.com

www.tradeforum.org

www.worldpublicopenion.org

www.cleanclothes.org/news

APPENDIX

The GTAP Model

The model “Global Trade Analysis Project” (GTAP), used in the research paper is a comparative static and a global general equilibrium model based on the neoclassical theory. Which is based on firms maximize their profits, while the consumers maximize their utility levels. And is assumed that all the markets are to be perfectly competitive, and the constant returns to scale prevail in all the production and the trading activities *(IMF Working paper 04/108).*

According to the “Leontief production technology”, firms do use both a composite of primary factors and also a composite of intermediates for their output productions. The composite of primary factor, is a constant in the elasticity of substitution (CES) functions of capital, labor, land and natural resources. While the composite of intermediate is a function from Leontief in inputs from materials, which are in turn blends CES from domestically manufactured goods and its imports. And these imports are from all the regions sourced in a country, with imports share depends on the trading prices (the Armington approach). And on the side of demand, each region or country is assumed of having a “super household “disposing of its regional income and in the fixed proportions, which is in the form of private consumption, expenses and savings by the government side. The consumption in household is assumed constant different in elasticity’s (CDE) function of consumer goods variously, while the expense by the government is based on a CES function from various commodities. Both consumptions from the household and the government are CES blends of goods produced domestically produced and their imports and these are all sourced from all the trading regions, which is based on the Armington’s approach *(IMF Working paper 04/108).*

The assumption on the regional savings, which is homogenous and it contributes to a pool of savings globally. And this is then allocated investing among regions in demand of response to the changes in the regional expected rates of return. And the regional changes are equalized across regions is assumed, thus it gives rise to the capital (savings) in mobility across the regions. Therefore, this mobility gives the freedom in the trade balance for changes greatly as a result of the trade liberalization and also it results to dampen the trade effect results. Capital stocks and savings are in contrast assumed to be more immobile across the regions, but are within a region perfectly mobile, like labor. On the other hand natural resources and land are industry specific and is possible only among the industries for a limited transformation on their uses.

The GTAP model’s simplicity makes it easier relatively to interpret the simulation results it receives, but the models capacity in dealing with the more complex economic issues are limited. But the path over time adjustments and the trade policies with the long term effects are limited, which are associated with the accumulation in investments, productivity and technology changes. And also costs for adjustments associated with the liberalization of trade are absent in this model. Therefore should note and keep in mind about these limitations on the time of interpretation of these results when presented. Essential data provided by GTAP database is on key trade policies and also on a large number of commodities and countries. 1987 was the data base year.

The below “Table A1” presents the region/country and commodity aggregations and the “Table A2” presents the elasticity’s which are used in the simulations *(IMF Working paper 04/108).*

Data Aggregation and Armington Elasticity’s

Table A1. Country/Region and Industry Aggregations Used in the Model

Country/region	Industry
Bangladesh	Agriculture and food
United States	Mining
European Union	Textiles
Other advanced countries	Clothing
Asian newly industrialized	Other manufacturing
ASEAN	Services
China	
South Asia	
Middle East and North Africa	
Latin America	
Sub-Saharan Africa	
Rest of the world	

Table A2. Central Scenario Elasticities of Substitution in Demand for Goods

Commodity	Elasticity of substitution between domestic goods and imports	Elasticity of substitution between imports by country of origin
Agriculture and food	2.4	4.7
Mining	2.8	5.6
Textiles	2.2	4.4
Clothing	4.4	8.8
Other manufactures	2.9	6.0
Services	1.9	3.9

Source: Based GTAP database version 5.

(Reference: IMF Working paper 04/108).